



Iowa Department of Revenue

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To: Governor's Office and Legislative Leaders
From: Mark Schuling, Director, Iowa Department of Revenue

Regarding: Iowa Tax Expenditure Study

Date: January 30, 2009

Enclosed is a copy of the Iowa Tax Expenditures Study 2005. This is an update of the State's first Tax Expenditures Study completed in the fall of 2001. The federal government, 29 other states, and the District of Columbia prepare similar studies.

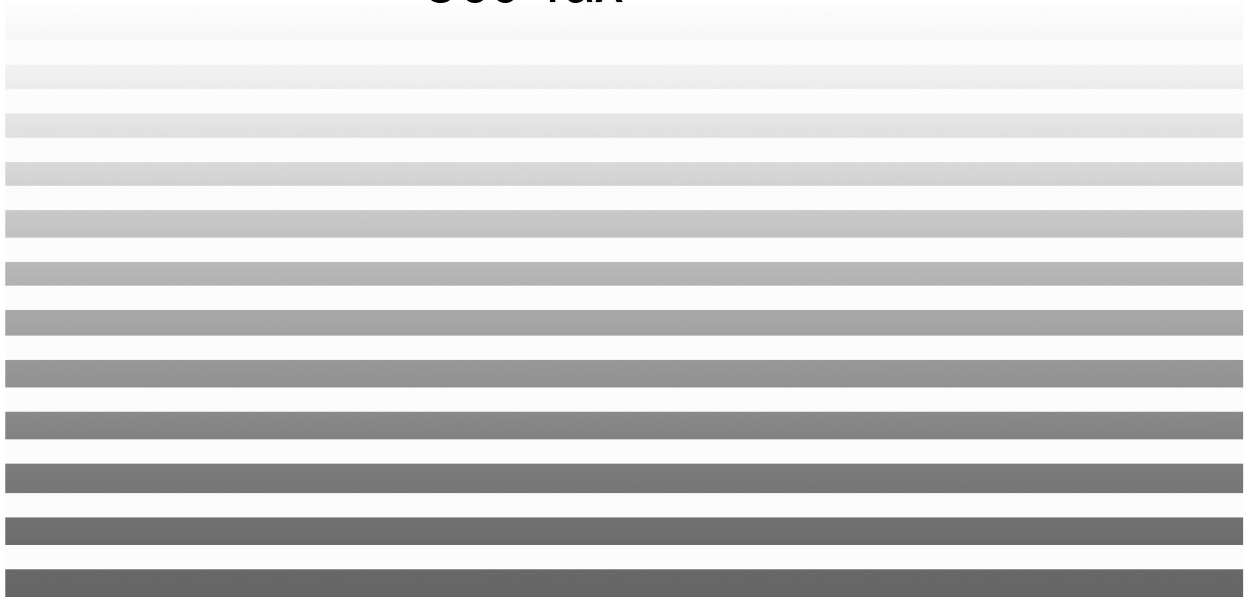
The purpose of the study is to provide an accounting of the impact of credits, deductions, exemptions, and income exclusions on the revenue raising capacity of the State's four primary General Fund taxes (i.e., individual income tax, corporate income tax, sales tax, and use tax). The information provided in the study reflects federal and state law as it existed during tax year 2005. This year was selected as the basis for the study because it is the most recent year for which complete data is available.

We intend to release the report publicly on Monday, February 2, 2009.

If you have any questions regarding this report, please contact me.

Iowa Tax Expenditures 2005

Corporate Income
Individual Income
Sales Tax
Use Tax



Prepared by

IOWA  Department of **REVENUE**

January 2009

Table of Contents

Executive Summary	3
Introduction	4
Tax Base Descriptions and History.....	6
Results Summary	9
Listing of Tax Expenditures	10
Corporate Income Tax - Federal Base.....	10
Corporate Income Tax - Iowa Specific.....	11
Individual Income Tax - Federal Base	13
Individual Income Tax - Iowa Specific.....	32
Individual and Corporate Income Tax - Federal Base	48
Individual and Corporate Income Tax - Iowa Specific	53
Sales and Use Tax	63
Use Tax.....	93
Appendix A	96

Executive Summary

The 2005 Iowa Tax Expenditure Study provides information on the impact of tax credits, deductions, exemptions, and income exclusions on the revenue raising capacity of the State's four major General Fund taxes. The taxes considered in the report are the individual income tax, the corporate income tax, the sales tax, and the use tax. Most years these four taxes account for at least 90 percent of net General Fund tax receipts.

The information provided in the report corresponds to tax year 2005. This is the most recent year for which complete tax return information is available. The information is provided for each tax expenditure on a tax year rather than on a fiscal year basis due to the difficulty of dividing taxpayers' individual income tax and corporate income tax liabilities by fiscal year.

For tax year 2005 Iowa collected \$2,277.9 million in individual income taxes, \$214.2 million in corporate income taxes, and \$1,787.9 million in sales and use taxes.

In preparing this report 276 separate tax law provisions were identified as meeting the definition of tax expenditures for tax year 2005. The report quantifies the impact of 223 of these provisions. For 32 of the provisions the impact was determined to be minimal (under \$100,000). For the other 53 provisions the impact either could not be determined due to the lack of adequate data or the impact was incorporated under another provision.

The total impact of the 191 provisions for which estimates are provided equals \$7,169.9 million. The impacts break down by tax type as follows:

Tax Type	Impact
Corporate Income Tax – Federal Base	\$ 27,200,000
Corporate Income Tax – Iowa Specific	\$ 98,000,000
Individual Income Tax – Federal Base	\$ 1,597,600,000
Individual Income Tax – Iowa Specific	\$ 2,862,900,000
Individual and Corporate Income Tax – Federal Base	\$ 112,300,000
Individual and Corporate Income Tax – Iowa Specific	\$ 83,000,000
Sales and Use Taxes	\$ 2,387,920,000
Use Tax Only	\$ 1,000,000
Total	\$ 7,169,920,000

For corporate income tax and individual income tax Iowa in most cases matches the provisions of the Internal Revenue Code. Other provisions, such as the out-of-state tax credit and the non-resident/part-year resident tax credit are required in order to avoid the double taxation of income.

Introduction

Purpose of the Tax Expenditure Study

Government programs funded through direct appropriations are subject to periodic review as part of the state budget process. But programs funded through special features of the tax code, such as tax exemptions, tax credits, tax deductions, and income tax exclusions, generally escape such examination. Therefore, this study is intended to provide more information about these features of the Iowa tax statutes and to improve government accountability.

Iowa joins 29 other states, the District of Columbia, and the federal government in having such a study available for periodic examination of the dollar impact of tax expenditures. With the exception of South Dakota, all of the states that border Iowa prepare such studies.

The estimates in this report are for taxable events occurring in calendar year 2005 and are based upon the most recent data available adjusted to reflect the levels of activity in 2005, if necessary. It is noted when estimates have been calculated for other periods. The estimates are based only upon the impact on receipts of the State of Iowa and only upon receipts going into the General Fund. Impacts on local option income surtaxes or "piggy-backed" local option sales taxes are not estimated. For this report, tax expenditures are limited to those related to individual income tax, corporate income tax, and sales and use taxes.

Definition of Tax Expenditure

A tax expenditure is any exemption, credit, deduction, or exclusion from the tax base that is tied to a specific provision in tax law. A tax expenditure is generally understood to be a preferential provision in the tax law that produces a reduction in tax from that which would be imposed without the provision. In addition, tax expenditures are generally targeted to a limited group of taxpayers. The basis of this report is to identify provisions in Iowa law and estimate the impact to the General Fund of each of the provisions that satisfy the definition of a tax expenditure.

Tax expenditures are not appropriations, but can be viewed as an alternative to direct government appropriations. Although tax expenditures allocate resources for specific public purposes like appropriations, they achieve policy goals indirectly by changing the cost of a particular action.

There are two approaches to identifying tax expenditures. The first approach is more traditional and uses a widely accepted, relatively narrowly focused set of criteria. Tax expenditures are identified by first defining the basic structure of the tax under consideration and any provisions which deviate from the basic tax structure are then considered to be tax expenditures. Provisions which form part of, or define, the basic tax structure are not tax expenditures. Under this approach, some deductions, exemptions and exclusions are not considered tax expenditures because they are a part of the basic tax structure. For example, since income taxes are imposed on net income, ordinary and necessary expenses are properly deductible in determining income and are, therefore, not tax expenditures.

Under a more broadly defined theory, tax expenditures are defined as all exemptions, exclusions, deductions and credits. While this approach avoids some of the definitional issues

encountered under traditional tax expenditure analysis, it includes many items as tax expenditures which are generally accepted as a part of the tax base.

In this study, the traditional tax expenditure analysis is used. Within the traditional approach, selection of particular tax expenditures is still a subjective process. For example, tax changes that alter the timing of when revenues or expenses are realized for tax purposes are not treated as tax expenditures (see Appendix A). Although an attempt was made to be as inclusive as possible within the general criteria, there remains potential for additional tax expenditures to be identified in the future.

How the Tax Expenditures Have Been Estimated

Two primary assumptions have been used for the Iowa tax expenditure study that are generally consistent with the assumptions used for calculating tax expenditures in other states and by the federal government. The first of these assumptions is that economic behavior is not altered. By definition, tax expenditures are sometimes originally created in order to bring about an expected result or to encourage a particular behavior. Estimates in this study are done assuming that elimination of the tax expenditure will not otherwise change behavior. This assumption avoids the necessity for making subjective assumptions about behavior and the possibility of inconsistency in methods and outcomes.

The second assumption used in this study is that tax expenditures are independent of other tax provisions. The fiscal impact of one tax provision can affect the fiscal impact of another tax provision. For instance, in the individual income tax, increasing the standard deduction may result in less use of particular itemized deductions. This type of impact is beyond the scope of this study and therefore, each tax expenditure is considered independently.

Another important issue to note is that tax expenditure estimates are not the same as budgetary fiscal estimates. Although the provided estimates of tax expenditures indicate the magnitude of the revenue gain from repeal of specific provisions, actual budgetary fiscal impacts of legislative changes may produce different results. The primary reason for this variance is the use of different basic economic assumptions or time periods when compiling the estimates. Another reason for possible differences is the assumption of independence when calculating tax expenditures contrasted with budgetary fiscal estimates that are often considered in the context of other changes.

When possible, the primary sources of information used to estimate the tax expenditures were tax returns and filing information. When that was not possible, secondary sources were used.

When a tax expenditure estimate is listed as “Minimal,” the calculated estimate was found to be less than \$100,000 in 2005.

Estimates that are categorized as having a “Federal Base” means that the expenditure is the result of the State of Iowa coupling with Internal Revenue Code.

Tax Base Descriptions and History

Before considering any exceptions to the tax base, a general description of the current tax base and rates and a short history are provided. The following descriptions cover the taxes considered in this report.

Corporate Income Tax

The Iowa corporate income tax was enacted in 1934 and generally uses federal definitions of business income and deductions. The history of corporate income tax rates and tax brackets is presented in the table below.

Year	Corporate Income Tax Rate and Income Tax Bracket History
1934	Imposed at flat rate of 2.0%
1959	Rate increased to 3.0%
1965	Rate increased to 4.0%
1967	Graduated rates introduced <ul style="list-style-type: none">• Up to \$25,000 – 4.0%• \$25,000 to \$100,000 – 6.0%• Over \$100,000 – 8.0%
1971	Rates increased to: <ul style="list-style-type: none">• Up to \$25,000 – 6.0%• \$25,000 to \$100,000 – 8.0%• Over \$100,000 – 10.0%
1981	Top rate of 12% imposed <ul style="list-style-type: none">• Up to \$25,000 – 6.0%• \$25,000 to \$100,000 – 8.0%• \$100,000 to \$250,000 – 10.0%• Over \$250,000 – 12.0%

The starting point for the determination of tax liability for Iowa corporate income tax is net income from the federal return. Corporations that have sales both within Iowa and outside the State only owe tax on the share of income earned within Iowa. For Iowa this apportionment of income is determined based on the ratio of sales within Iowa to total sales nationally. Traditionally, most states with a corporate income tax apportion income based on a three factor formula that takes into consideration employment, property, and sales. Basing Iowa's apportionment formula exclusively on sales is believed to provide a competitive advantage in attracting new business to the state, particularly manufacturers.

Other significant features of Iowa's corporate income tax include:

- Not requiring nationwide combined reporting,
- A deduction for 50 percent of federal tax payments,
- Allowing operating losses to be carried back 2 years or forward 20 years, and
- Excluding foreign dividends from taxable income.

30,030 C-corporations filed Iowa corporate tax returns for tax year 2005. 21,989 (64.6%) of these corporations had all of their sales within Iowa. The remaining 8,041 corporate filers had sales both within Iowa and outside the state. The total tax liability of C-corporations for tax year

2005 equaled \$214.2 million. Corporations that apportioned income accounted for \$180.7 million of the tax liability.

Individual Income Tax

The Iowa individual income tax was enacted in 1934 and is imposed on Iowa net income of individuals, estates, and trusts. Individuals may also be subject to an alternative minimum tax and a tax on lump-sum distributions from qualified retirement plans.

Iowa uses federal adjusted gross income as the starting point in the income tax calculation. This means that Iowa net income generally conforms to federal definitions of sources included in income as well as adjustments to gross income. The history of individual income tax rates and tax brackets is presented in the table below.

Year	Individual Income Tax Rates and Income Tax Bracket History
1934	Graduated rates imposed ranging from 1.0% to 5.0% over 5 taxable income classes
1953	Rates lowered to range from 0.75% to 3.75% over the same taxable income classes
1955	Rates increased to range from 0.8% to 4.0% over 5 taxable income classes with the taxable income level for the top bracket lowered from \$5,000 to \$4,000
1957	Rates lowered to range from 0.75% to 3.75% over the same taxable income classes
1965	Rate changed to range from 0.75% to 4.5% over 7 taxable income classes with the taxable income level for the top bracket beginning at \$9,000
1967	Rates increased from 3.75% to 4.5% on the sixth bracket and from 4.5% to 5.25% on the top bracket
1971	Rates increased on all brackets except lowest two classes with rates ranging from 0.75% to 7.0%
1975	Rates imposed ranging from 0.5% to 13.0% over 13 taxable income classes with the top bracket beginning at \$75,000 of taxable income
1979	Rates unchanged but indexation of brackets begins
1987	Rates changed to 0.4% to 9.98% over nine taxable income classes with the top bracket beginning at \$45,000 of taxable income
1996	Indexation of brackets made permanent
1997	All tax rates cut 10% with a range of .36% through 8.98% over nine taxable income classes with the top bracket beginning at \$45,000 taxable income

Features that distinguish Iowa's individual income tax from federal individual income tax include:

- The ability of married taxpayers to file separately on the same return, which eliminates the "marriage penalty" encountered by many married taxpayers that file jointly for federal income tax,
- Personal and dependent credits, which are of equal value regardless of taxpayers' income, instead of personal exemptions, for which the impact on tax liability varies with one's level of income,
- For Iowa residents, only single individuals with Iowa net income over \$9,000 and other filers with Iowa net income over \$13,500 are required to file tax returns, and for non-residents Iowa returns only have to be filed by those with over \$1,000 Iowa net income, and

- A 100 percent deduction for federal income tax payments.

1,397,634 Iowa individual income tax returns were filed for tax year 2005. 1,262,447 of the returns were filed by Iowa residents and 135,187 were filed by non-residents. The total tax liability reported on these returns equaled \$2,277.9 million. Resident taxpayers accounted for \$2,151.7 million of the tax liability and the remaining \$126.2 million of tax liability was accounted for by non-residents.

Sales and Use Taxes

Both the Iowa sales tax and the use tax were enacted in 1934. Sales tax is imposed on the gross receipts from the sale of tangible personal property sold at retail and of enumerated services. The use tax is meant to complement the Iowa sales tax. The general rule is that a transaction is subject to Iowa use tax when it is completed outside the State but involves tangible personal property sold for use in Iowa. The principle also applies to the sale of taxable services purchased outside of Iowa for use in Iowa. Any transaction where sales tax has been paid, at a rate equal to or higher than the Iowa sales tax rate, is exempt from use tax.

The sales tax rate in 2005 was five percent and is applied to most purchases of goods and a select group of services. Additionally, two local option sales taxes may apply each with a maximum rate of one percent for a maximum state and local sales tax rate of seven percent. One of the local option sales taxes can be described as a general local government tax. The other local sales tax is specifically limited in use to school infrastructure. Neither of the local option sales taxes is taken into consideration in this study. The sales tax rate was increased to six percent in 2008. The history of the sales and use tax rates is presented in the table below.

Date of Change	Tax Rate
April 1, 1934	2.0%
July 1, 1955	2.5%
July 1, 1957	2.0%
October 1, 1967	3.0%
March 1, 1983	4.0%
July 1, 1992	5.0%
July 1, 2008	6.0%

Iowa taxes more services than most other states, but most business services, such as accounting, engineering, and legal services, remain exempt from Iowa sales and use taxes. Since these services have never been subject to Iowa tax they are not considered in this study.

During 2005, sales tax, retailers use tax, and consumers use tax liabilities totaled \$1,787.9 million.

Results Summary

A total of 276 tax expenditures are identified in this report covering four taxes: corporate income, individual income, sales and use. Of these 276, dollar impact estimates are presented for 223 tax expenditures. The total dollar impact of all tax expenditures if each is considered separately is \$7.17 billion for calendar year 2005. The five largest expenditures for each tax type are listed below.

Top Five Tax Expenditures for Corporate Income Tax

Fifty Percent Deduction of Federal Tax	\$95,000,000
Foreign Dividend Exclusion	\$21,700,000
Corporate Charitable Contributions	\$3,500,000
Alternative Minimum Tax Credit Carry Forward	\$2,400,000
Electric and Telephone Coops and Mutuals	\$1,800,000

Top Five Tax Expenditures for Individual Income Tax

Nonresident/Part-Year Resident Tax Credit	\$1,778,400,000
Federal Tax Deduction	\$505,400,000
Employee Fringe Benefit – Medical Insurance	\$401,800,000
Pension Contributions and Earnings in Employer Plans	\$186,800,000
Pension Contributions and Earnings in 401(k) Plans	\$177,100,000

Top Five Tax Expenditures for both Individual and Corporate Income Taxes

Life Insurance and Annuity Interest	\$72,000,000
Research Activities Tax Credit	\$22,600,000
Life Insurance Death Benefits	\$15,800,000
Employment Stock Ownership Plan (ESOP)	\$13,200,000
Added Wage Deduction – Small Businesses	\$11,100,000

Top Five Tax Expenditures for Sales and Use Taxes

Interstate Sales	\$335,700,000
Food Sales for Human Consumption	\$305,900,000
Transportation Services – General	\$229,800,000
Gambling Boat Games and Admissions	\$207,300,000
Industrial Machinery, Equipment and Computers	\$111,300,000

Listing of Tax Expenditures

Calendar Year 2005 Impact

Corporate Income Tax - Federal Base

Corporate Charitable Contributions	\$3,500,000
Electric and Telephone Coops and Mutuals	\$1,800,000
Foreign Dividend Exclusion.....	\$21,700,000
Sale of Farm Refiners Deferral of Gain	\$200,000

Corporate Charitable Contributions Estimate - \$3,500,000

Citation: Iowa Code 2005 422.3(5) and IAC 701-53.1 and IRC 170

Generally, taxpayers may deduct contributions to nonprofit, charitable organizations. The deduction of a corporation for a contribution or gift is limited to 10% of its taxable income for the year in which the deduction was made computed without regard to (1) the deduction for charitable contributions, (2) the deductions for dividends received and for dividends paid on certain preferred stock of public utilities, (3) any net operating loss carryback to the tax year, and (4) any capital loss carryback to the tax year. Contributions in excess of the 10% limit may be carried over for five succeeding tax years. With some exceptions, the value of donated property is its fair market value.

Electric and Telephone Coops and Mutuals Estimate - \$1,800,000

Citation: Iowa Code 2005 422.3(5) and IAC 701-53.1 and IRC 501(c)(12)

The incomes of mutual and cooperative telephone and electric companies are exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

Foreign Dividend Exclusion Estimate - \$21,700,000

Citation: Iowa Code 2005 422.35(21) and IAC 701-53.19

Corporations may claim a deduction based on percentage of ownership as set forth in Section 243 of the Internal Revenue Code for foreign dividends including Subpart F income as defined in Section 952 of the Internal Revenue Code. Subpart F income is income earned by a foreign subsidiary of a domestic corporation strictly from foreign sources.

Sale of Farm Refiners Deferral of Gain..... Estimate - \$200,000

Citation: Iowa Code 2005 422.3(5) and IAC 701-53.1 and IRC 1042(g)

A taxpayer that sells stock in a domestic corporation that is engaged substantially in refining or processing agricultural or horticultural products and reinvests the proceeds in qualified replacement property may defer recognition of gain on the sale.

Corporate Income Tax - Iowa Specific

Alternative Minimum Tax Credit Carry Forward	\$2,400,000
Alternative Minimum Tax Exclusion.....	\$600,000
Fifty Percent Deduction of Federal Tax	\$95,000,000
New Jobs and Income Program (NJIP) Third Party Sales Tax Credit.....	\$0

Alternative Minimum Tax Credit Carry Forward Estimate - \$2,400,000

Citation: Iowa Code 2005 422.33(7) and IAC 701-52.5(4)

A credit is allowed against regular corporate income tax liability for the effective amount of the alternative minimum tax paid in a prior year. The effective amount of the alternative minimum tax – a non-zero entry on Iowa form 1120 line 18 – is the amount that exceeds the regular tax; the gross amount is referred to as the tentative alternative minimum tax (Iowa form 1120 schedule 4626 line 17). This amount is carried forward and is credited against tax liability in year where the regular tax exceeds the tentative alternative minimum tax. An alternative minimum tax can be carried forward as a credit until it is utilized; there is no time limit. The credit for effective alternative minimum tax began in tax year 1988 and was simplified in 1990. Alternative minimum tax carry forward inventory is reported on page 4 of the Iowa 1120, but not captured on Departmental data systems. Both the regularly calculated tax and the alternative minimum tax are applied to Iowa-apportioned income.

Alternative Minimum Tax Exclusion Estimate - \$600,000

Citation: Iowa Code 2005 422.33(4)(c) and IAC 701-52.5(2)

When computing the alternative minimum tax, an exclusion is provided with an income-based phase-out before computation of tax. The exclusion is equal to \$40,000. However, the exemption is reduced by 25 percent of the amount that the alternative minimum taxable income, computed without regard to the \$40,000, exceeds \$150,000. That is, for alternative incomes up to \$150,000 the alternative income exclusion is \$40,000. Between \$110,000 and \$310,000 in alternative income the exclusion is reduced by \$.25 for every dollar over \$150,000. With alternative incomes over \$310,000, the exclusion disappears. The exemption cannot fall below zero.

Fifty Percent Deduction of Federal Tax Estimate - \$95,000,000

Citation: Iowa Code 2005 422.35(4) and IAC 701-53.12

Corporations may deduct from net income fifty percent of federal income taxes paid or accrued adjusted for any federal income tax refunds.

New Jobs and Income Program (NJIP) Third Party Sales Tax Credit.....Estimate - \$0

Citation: Iowa Code 2005 15.331C and IAC 261-68.4(2)

An eligible business or supporting business may apply for a refund of the sales and use taxes paid under Iowa Code chapters 422 and 423 for gas, electricity, water or sewer utility services, goods, wares, or merchandise, or on services rendered, furnished or performed to or for a contractor or subcontractor and used in the fulfillment of a written contract relating to the construction or equipping of a facility within the economic development area. Taxes attributable to intangible property and furniture and furnishings shall not be refunded. To receive a refund of the sales, service and use taxes paid to contractors or subcontractors, the eligible business or supporting business must, within one year after project completion, make an application to the Iowa Department of Revenue.

Individual Income Tax - Federal Base

Alimony Payments	\$3,500,000
Capital Gain – Carryover Basis of Gifts	\$800,000
Capital Gain – Home Sale Exclusion.....	\$112,100,000
Capital Gain – Small Business Stock	\$300,000
Capital Gain – Step-up Basis at Death.....	\$60,400,000
Capital Loss in Excess of Gains.....	\$10,200,000
Clean Fuel Vehicles & Refueling Property.....	\$100,000
Coverdell Education Savings Account.....	\$500,000
Educator Expense Deduction.....	\$600,000
Employee Achievement Awards.....	\$100,000
Employee Fringe Benefit – Cafeteria Plans	Not Estimated
Employee Fringe Benefit – Child Care	\$1,400,000
Employee Fringe Benefit – Disability Insurance	\$900,000
Employee Fringe Benefit – Education Assistance	\$2,600,000
Employee Fringe Benefit – Life Insurance	\$7,900,000
Employee Fringe Benefit – Medical Insurance	\$401,800,000
Employee Fringe Benefit – Miscellaneous Non-Cash.....	Not Estimated
Employee Fringe Benefit – Parking Expense Paid	\$1,200,000
Employee Fringe Benefit – Transit Pass Expenses	\$300,000
Employee Meals and Lodging	\$2,600,000
Federal Employees Abroad Allowances	\$1,300,000
Federal Social Security Exemption.....	\$81,000,000
Foreign Income Exclusion	\$8,000,000
Foster Care Payments	\$1,900,000
Health Savings Account Contributions	\$700,000
Insurance Reimbursed Living Expenses	Not Estimated
Iowa Educational Savings Plan (College Savings Iowa 529 Plan) Earnings	\$1,800,000
Itemized Deduction for All Casualty and Theft Losses.....	\$500,000
Itemized Deduction for Gifts to Charity	\$94,900,000
Itemized Deduction for Income Taxes Paid to Other States	\$6,300,000
Itemized Deduction for Interest Paid	\$171,000,000
Itemized Deduction for Job Expenses and Miscellaneous Deductions Exceeding 2% of Adjusted Gross Income	\$26,300,000

Itemized Deduction for Medical and Dental Expenses.....	\$31,100,000
Itemized Deduction for Other Miscellaneous Deductions Not Subject to the 2% Adjusted Gross Income Limit	\$15,300,000
Itemized Deduction for Personal Property and Other Taxes.....	\$9,200,000
Itemized Deduction for School District/EMS Surtaxes	\$3,400,000
Itemized Deduction for Taxes on Owner Occupied Property	\$68,000,000
Jury Pay Remitted to Employers	Minimal
Medical Savings Accounts (Archer MSA) Deduction	\$800,000
Military Benefits.....	\$1,800,000
Military Disability Pensions.....	\$200,000
Moving Expenses.....	\$700,000
Non-Farm Cancellation of Debt.....	Minimal
Non-Taxable Transfer of Property to a Spouse	Not Estimated
Oil and Gas Passive Loss Exception.....	Minimal
One Half of Self-Employment Tax.....	\$14,100,000
Parsonage Allowance	\$1,100,000
Passive Loss Real Estate Exemption.....	\$11,100,000
Pension Contributions and Earnings in 401(k) Plans.....	\$177,100,000
Pension Contributions and Earnings in Employer Plans.....	\$186,800,000
Pension Contributions to Individual Retirement Accounts	\$9,700,000
Pension Contributions to Self Employed Retirement Plans	\$12,200,000
Pension Earnings in Individual Retirement Accounts.....	\$12,600,000
Pension Earnings in Self Employed Retirement Plans	\$10,300,000
Personal Injury Damages.....	Not Estimated
Premature Withdrawal Interest Forfeiture.....	Not Estimated
Public Assistance Benefits	\$1,300,000
Residence as a Limited Rental.....	Not Estimated
Scholarship and Fellowship Exclusion	\$6,200,000
Solvent Farmer Discharge of Debt	\$200,000
Student Loan Interest.....	\$5,400,000
Travel Expenses for State Legislators.....	Minimal
Utility Customer Conservation Subsidies.....	\$400,000
Veteran Education Benefits.....	\$200,000
Workers' Compensation Benefits	\$16,400,000

Workers' Compensation for Coal MinersMinimal
 Workers' Compensation Premiums\$1,000,000

Alimony Payments Estimate - \$3,500,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 62(a)(10), 71& 215

Taxpayers can reduce income by an amount equal to the alimony or separate maintenance payments paid during the year. The term "alimony or separate maintenance payment" means any alimony or separate maintenance payment that meets all the following conditions: (1) is in cash or its equivalent, (2) is received by or on behalf of a spouse under a divorce or separation instrument, (3) is not designated by the instrument as not deductible, (4) is made only when the payee and the payer are not members of the same household, (5) ends at the death of the payee, (6) is made when the spouses do not file a joint return with each other, and (7) is not treated as child support.

Capital Gain – Carryover Basis of Gifts Estimate - \$800,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1015(d)

When property is gifted, the tax basis for the gift equals the cost that was paid when the transferred property was first acquired by the donor plus an allowance for any gift taxes paid on the gift. Any capital gains on the property do not have to be realized by the recipient of the gift at the time of transfer.

Capital Gain – Home Sale Exclusion Estimate - \$112,100,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 121

Any gain from the sale or exchange of personal residential property is excluded from taxable income if, during the 5-year period ending on the date of the sale or exchange, the property has been owned and used by the taxpayer as the taxpayer's principal residence for at least two years. The gain can not exceed \$250,000 for single filers or \$500,000 for married joint filers. The exclusion may not be used more than once every two years.

Capital Gain – Small Business Stock Estimate - \$300,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1202

A non-corporate taxpayer can exclude 50 percent of any gain from the sale or exchange of qualified small business stock held for more than five years. The gain eligible for the fifty percent exclusion may not exceed the greater of \$10,000,000 or 10 times the taxpayer's basis in the stock. The remaining amount is treated as a capital gain and is fully taxable for Iowa purposes. In order to qualify for the exclusion, the stock must be issued after August 10, 1993 and acquired by the taxpayer at its original issue (directly or through an underwriter) in exchange for money or property, or as compensation for services provided to the corporation. A qualified small business is a domestic C corporation with aggregate gross assets that do not exceed \$50,000,000 at the date of issuance.

Capital Gain – Step-up Basis at Death..... Estimate - \$60,400,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1014

Capital gains on assets held at the owner's death are not subject to capital gains taxes. Generally, the basis of any property, real or personal, acquired from a decedent is its fair market value on the date of the decedent's death or on the alternate valuation date. Principally, this stepped-up basis applies to property acquired by bequest, devise or inheritance. It also applies to property required to be included in the decedent's gross estate for federal estate tax purposes even though it was the subject of a lifetime transfer, unless transferee sold or otherwise disposed of the property before the decedent died. The step-up in the heir's cost basis means that, in effect, the tax on the capital gain is forgiven.

Capital Loss in Excess of Gains Estimate - \$10,200,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1211

Net capital losses are deductible up to the amount of any capital gains plus \$3,000.

Clean Fuel Vehicles & Refueling Property Estimate - \$100,000
Citation: Iowa Code 2005 422.3(4) & 422.7 and IAC 701-40.67 & 41.2 and IRC 179A

A deduction from gross income is allowed for up to \$2,000 of the cost of a clean fuel motor vehicle up to 10,000 pound. The allowed deduction is up to \$5,000 of the cost of a truck or van with a gross vehicle weight above 10,000 pounds and not exceeding 26,000 pounds. The amount allowed is up to \$50,000 of the cost of a truck or van with a gross vehicle weight above 26,000 pounds or a bus with a seating capacity exceeding 20 adults. A qualified clean fuel vehicle need not be depreciable property, but it must be acquired for use by the taxpayers, the original use must commence with the taxpayer. The vehicle must meet certain environmental standards. A clean-fuel vehicle is one that uses natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, electricity or any other fuel that is at least 85% methanol, ethanol, any other alcohol or ether. A deduction from gross income is allowed for the aggregate cost of qualified clean fuel vehicle refueling property up to \$100,000 per location.

Coverdell Education Savings Accounts Estimate - \$500,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 530

Individuals at moderate income levels may contribute up to \$2,000 per beneficiary per year to a tax-favored Coverdell Education Savings Account (ESA). Beneficiaries must be under the age of 18, unless a beneficiary is a special needs beneficiary. Contributions are phased out for taxpayers with income between \$190,000 and \$220,000 (\$95,000 and \$110,000 for single filers). Contributions are not deductible. However, withdrawals (and earnings) used for qualified educational expenses prior to the beneficiary attaining age 30 are not subject to tax.

Educator Expense Deduction Estimate - \$600,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 62(a)(2)(D)

Expenses up to \$250 paid or incurred by an eligible educator in connection with books, supplies (other than non-athletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom can be deducted from taxable income.

Employee Achievement Awards Estimate - \$100,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 74(c), 132(e) and 274(j)

Under a limited exception, employees may exclude from income certain employee achievement awards. An employee who receives tangible personal property from his employer in recognition of length of service or safety achievement can exclude the value of the property from income, as long as the cost of the property to the employer does not exceed the amount of the employer's deduction for the property. Specific dollar limits also apply which are generally \$400 annually per employee during a year unless the award is a part of a qualified plan award which may total up to \$1,600 per employee per year. The property must be awarded as part of a meaningful presentation and must not constitute disguised compensation. Cash awards and gift certificates do not qualify as employee achievement awards unless de minimis.

Employee Fringe Benefit – Cafeteria Plans..... Estimate – Not Estimated
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 125

Benefits chosen from employer cafeteria plans are excluded from income to the extent allowed by law for the separate benefits. Cafeteria plans are employer-sponsored benefit packages that offer employees a choice between taking cash and receiving qualified benefits, such as accident and health coverage, group term life insurance coverage, or coverage under a dependent care program. If a participant chooses cash, it is includible in gross income as compensation. "Qualified benefits" do not include medical savings accounts or long-term care insurance coverage.

Employee Fringe Benefit – Child Care..... Estimate - \$1,400,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 129

The exclusion for dependent care assistance benefits under a qualifying program is limited to \$5,000 a year (\$2,500 in the case of a married individual filing a separate return). In the case of a married couple filing a joint return, the amount deducted may not exceed the lesser of (1) the earned income of the employee or (2) the earned income of the spouse. A special rule applies for determining the value of child care in a facility on the employer's premises (on-site facility). Under this rule, the value of the benefit is measured by the value of services provided to employees who actually use the facility.

Employee Fringe Benefit – Disability Insurance Estimate - \$900,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 106

Premiums paid by the employer under an insurance policy providing for replacement payments to the employee in the event he becomes sick or disabled are excludible from the employee's gross income.

Employee Fringe Benefit – Education Assistance..... Estimate - \$2,600,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 127

Payments received by an employee for tuition, fees, books, supplies and similar items under an employer's educational assistance program may be excluded from gross income up to a maximum of \$5,250. Excluded are graduate teaching assistants or research assistants who receive tuition reduction. Excludable assistance may not include tools or supplies that the employee retains after the course or the cost of meals, lodging or transportation. Although courses need not be job-related, courses involving sports, games, or hobbies may be covered only if they involve the employer's business or are required as part of a degree program.

Employee Fringe Benefit – Life Insurance Estimate - \$7,900,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 79

The cost of life insurance premiums paid by an employer for coverage up to \$50,000 is exempt provided certain nondiscrimination rules are followed. The cost of any amount of coverage in excess of \$50,000 is includable in gross income, which is determined by IRS regulations. If a discriminatory group-term insurance plan exists, the cost of the life insurance paid by the employer for the tax year is includable in the gross income of key employees and certain former key employees.

Employee Fringe Benefit – Medical Insurance..... Estimate - \$401,800,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 106

Employer paid health insurance premiums and other medical expenses, including long-term care, are deducted as a business expense by employers, but they are not included in employee gross income. In the case of an employee who is an eligible individual, amounts contributed by such employee's employer to any medical savings account of such employee shall be treated as employer-provided coverage for medical expenses under an accident or health plan to the extent they do not exceed certain limits.

Employee Fringe Benefit – Miscellaneous Non-Cash Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 132

Several miscellaneous non-cash benefits are excluded from employee's gross income including: (1) no additional cost services (free standby flights by airlines to employees), (2) qualified employee discounts, (3) working condition fringe benefits (use of company car for business purposes), (4) de minimis fringe benefits (use of copy machine for personal use), (5) qualified moving expense reimbursements, and (6) value of any on-premises athletic facilities provided and operated by the employer. These benefits may also be extended to retired and disabled former employees, to widows and widowers of deceased employees and to spouses and dependent children of employees.

Employee Fringe Benefit – Parking Expense Paid Estimate - \$1,200,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 132(f)(1)(C) & (f)(2)(B)

Employee parking expenses that are paid for by the employer and are received in lieu of wages are excludable from the income of the employee. The maximum amount allowed in 2005 is \$200 per month. That amount is indexed. The parking must be on or near the business location of the employer or be near a location in which the employee commutes by mass transit, carpool or in a commuter highway vehicle. This tax expenditure does not include parking at or near property used by the employee for residential purposes.

Employee Fringe Benefit – Transit Pass Expenses Estimate - \$300,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 132(f)(1)(B) & (f)(2)(A)

Transit passes, tokens, fare cards, and van pool expenses paid for by an employer and received in lieu of wages to defray an employee's commuting costs are excludable from the employee's income. In 2005, the maximum amount of the exclusion is \$105 per month.

Employee Meals and Lodging Estimate - \$2,600,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 119

Employer provided meals and lodging for the convenience of the employer are excluded from an employee's gross income even though the employer's costs for these items are deductible as a business expense but only if, in the case of meals, the meals are furnished on the business premises of the employer, or in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment. The meals are excludable from the employee's gross income if provided to the employee, the employee's spouse or dependents by or on behalf of the employer.

Federal Employees Abroad Allowances..... Estimate - \$1,300,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 912 and Reg 1.912

Amounts received by U.S. federal civilian employees and Peace Corps members stationed outside the continental United States as cost-of-living allowances in accordance with regulations approved by the President are excluded from gross income. The allowances supplement wage income and cover expenses like rent, education and cost of travel to and from the United States.

Federal Social Security Exemption..... Estimate - \$81,000,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 86

A portion of social security benefits are exempt from tax. Up to 85 percent of recipients' social security and tier I railroad retirement benefits are included in the income tax base if the recipients' provisional income exceeds certain amounts. The provisional income is the taxpayer's modified adjusted gross income plus one-half of the social security benefits and one-half of the railroad retirement benefits received.

Foreign Income Exclusion..... Estimate - \$8,000,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 911 and Reg 1.911

A qualified individual may elect to exclude a portion of foreign earned income and the housing cost amount from the individual's gross income for the taxable year. Foreign earned income is excludable to the extent of the applicable limitation for the taxable year which was \$80,000 in 2005. The housing cost amount is excludable to the extent attributable to employer provided amounts. If the taxpayer does not receive a specific allowance for housing expenses, the taxpayer may deduct against U.S. taxes that portion of housing expenses that exceeds sixteen percent of the salary of a civil servant grade GS-14. The amounts excluded for housing for the taxable year can not exceed the individual's foreign earned income for the year. A housing cost amount that would be deductible except for the application of this limitation may be carried over to the next taxable year and is deductible to the extent of the limitation for that year.

Foster Care Payments Estimate - \$1,900,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 131

Foster parents provide under a contract with the State a home and care for children who are wards of the State. Compensation received for this service is excluded from the gross incomes of foster parents. However, the payments are taxable if for more than ten persons under age 19 or more than five over age 18.

Health Savings Account Contributions Estimate - \$700,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 223

A taxpayer exclusively covered by high deductible health insurance (defined as a plan with a minimum deductible of \$1,000 for self-coverage or \$2,000 for family coverage) may make pre-tax contributions to a Health Savings Account (HSA). The maximum amount a taxpayer may contribute is the lesser of the deductible or \$2,650 for self-coverage (\$5,250 family coverage) in 2005. Taxpayers may exclude from income any amount paid or distributed out of a HSA that is used exclusively to pay for qualified medical expenses of any beneficiary named on the account. Distributions not used to pay for qualified medical expenses are includible in gross income and subject to a ten percent penalty.

Insurance Reimbursed Living Expenses..... Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 123

A taxpayer whose residence is damaged or destroyed by fire, storm, or other casualty and who must temporarily occupy another residence during the repair can exclude from gross income any insurance payments received as reimbursement for living expenses during that period. This includes a person who is denied access to a principal residence by governmental authorities because of the occurrence or threat of occurrence of a casualty. The exclusion is limited to the excess of actual living expenses incurred by the taxpayer and members of the household over the normal living expenses that they would have incurred during the period. The exclusion covers additional costs incurred in renting suitable housing and any extraordinary expenses for transportation, food, utilities and miscellaneous items.

Iowa Educational Savings Plan Trust

(College Savings Iowa 529 Plan) Earnings..... Estimate - \$1,800,000

Citation: Iowa Code 2005 422.7(33) and IAC 701-40.53(2) and IRC 529

The Iowa educational savings plan trust (College Savings Iowa 529 Plan) was created so that individuals can contribute funds on behalf of beneficiaries in accounts administered by the state treasurer to cover future higher education costs of the beneficiaries. To the extent that interest or other earnings accrue on a beneficiary's account in the Iowa educational savings plan trust, the interest or other earnings are excluded for the purposes of computing net income of the participant or the beneficiary.

Itemized Deduction for All Casualty and Theft Losses Estimate - \$500,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 165(c)(3)

This estimate includes:

- Itemized Deduction for Casualty Losses Due to Disaster
- Itemized Deduction for Casualty Losses Due to Theft

For individuals for property not connected with a trade or business or a transaction entered into for profit, deduction from income subject to tax may be made for uninsured losses arising from fire, storm, shipwreck, or other casualty, or from theft of more than \$100 to the extent that total losses during the year exceed ten percent of adjusted gross income. A loss from a casualty arises from an event due to some sudden, unexpected or unusual cause. Damage or loss to property caused by an unusual and unprecedented drought can be treated as a casualty loss. Although cash or property received as compensation for, or to repair or replace, damaged property reduces the amount of the loss, the deduction will not be reduced by excludable gifts received by a disaster victim, even if the gifts are used to rehabilitate the property.

Itemized Deduction for Gifts to Charity Estimate - \$94,900,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 170

This estimate includes:

- Itemized Deduction for Volunteer Work Mileage

Generally, taxpayers may deduct cash or in-kind contributions to nonprofit, charitable organizations. Taxpayers who donate capital assets can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed fifty percent of adjusted gross income.

Itemized Deduction for Income Taxes Paid to Other States..... Estimate - \$6,300,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 164(a)

Income taxes paid to states other than Iowa by nonresidents and part-year residents can be deducted as an itemized deduction.

Itemized Deduction for Interest Paid Estimate - \$171,000,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 163

This estimate includes:

- Itemized Deduction for Mortgage Interest Paid
- Itemized Deduction for Mortgage Interest Credit
- Itemized Deduction for Investment Interest Paid

Owner-occupants of homes may deduct mortgage interest on their primary and secondary residences. The mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence and, for debt incurred after October 13, 1987, is limited to no more than \$1 million. Interest on up to \$100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided that the debt does not exceed the fair market value of the residence. Interest paid on money borrowed for property held as an investment may be deducted. The amount allowed as a deduction for investment interest for any taxable year cannot exceed the net investment income of the taxpayer for the taxable year. Personal interest such as interest paid on credit card balances is not deductible.

Itemized Deduction for Job Expenses and Miscellaneous Deductions Exceeding 2% of Adjusted Gross Income Estimate - \$26,300,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 62, 67, 162, 212 & 280A

This estimate includes:

- Itemized Deduction for Business Use of Home
- Itemized Deduction for Employment Expenses
- Itemized Deduction for Employment Related Dues
- Itemized Deduction for Employment Related Education Expenses
- Itemized Deduction for Employment Search Expenses
- Itemized Deduction for Legal Expenses
- Itemized Deduction for Miscellaneous Expenses
- Itemized Deduction for Tax Preparation
- Itemized Deduction for Uniform Expenses

Certain expenses can be deducted as miscellaneous itemized deductions. The amount that can be claimed is the amount of expenses that exceed two percent of adjusted gross income. Generally, the two percent floor is applied after any other deduction limit such as the fifty percent limit on business-related meals and entertainment.

Itemized Deduction for Medical and Dental Expenses Estimate - \$31,100,000

Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 213

Medical and dental expenses paid during the taxable year, not compensated for by insurance or otherwise (for medical care of the taxpayer, his spouse, or a dependent) can be deducted to the extent that such expenses exceed 7.5 percent of adjusted gross income. Expenses are generally deductible in the year paid with advance payments generally not deductible until services are rendered. Charges to a credit card qualify as payment of expenses in the year charged.

Itemized Deduction for Other Miscellaneous Deductions**Not Subject to the 2% Adjusted Gross Income Limit Estimate - \$15,300,000***Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 67*

This estimate includes:

- Itemized Deduction for Amortized Bond Premium
- Itemized Deduction for Annuity Input Recovery
- Itemized Deduction for Claim of Right
- Itemized Deduction for Co-op Housing Expenses
- Itemized Deduction for Estate Taxes on Income
- Itemized Deduction for Gambling Losses
- Itemized Deduction for Impairment Related Work Expenses
- Itemized Deduction for Short Sale Expenses

These miscellaneous deductions are allowed and are not subject to the two percent adjusted gross income limit.

Itemized Deduction for Personal Property and Other Taxes..... Estimate - \$9,200,000*Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 164(a)(2)*

Personal property taxes (including vehicle registrations) based upon value and other taxes paid (including taxes paid to foreign governments) may be deducted from income otherwise subject to tax.

Itemized Deduction for School District/EMS Surtaxes Estimate - \$3,400,000*Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 164(a)*

Iowa school district and emergency medical income surtaxes paid during the calendar year may be deducted as income taxes because they are not Iowa state income taxes.

Itemized Deduction for Taxes on Owner Occupied Property..... Estimate - \$68,000,000*Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 164(a)(1)*

Owner-occupants of homes may deduct property taxes on their primary and secondary residences as itemized non-business deductions.

Jury Pay Remitted to Employers Estimate – Minimal*Citation: Iowa Code 2005 422.3(5) & 422.9 and IAC 701-41.2 and IRC 62(a)(13)*

A deduction is allowed for any jury pay claimed as income, but remitted to the employer because the employer paid the taxpayer regular wages for the period an individual was performing jury duty. The term “jury pay” means any payment received by the individual for the discharge of jury duty.

Medical Savings Accounts (Archer MSA) Deduction Estimate - \$800,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 220

Some employees may deduct annual contributions to a medical savings account (MSA). Employer contributions to MSAs (except those made through cafeteria plans) for qualified employees are also excluded from income. An employee may contribute to an MSA in a year only if an employer does not contribute. MSAs are only available to self-employed individuals or employees covered under an employer-sponsored high deductible health plan of a small employer. Earnings from MSAs are excludable from income. Distributions from an MSA are not taxable.

Military Benefits Estimate - \$1,800,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 134(b)(1)(A) and Reg 1.61-2(b)

Qualified military benefits, either cash or in-kind, generally may be excluded from income and are not subject to tax. Military personnel (which includes regular and reserve members of the Army, Navy (sailors and Marines), Air Force and Coast Guard) receive many kinds of allowances and benefits for housing, subsistence, and other needs. Included among the allowances and benefits are: living allowances, family-related allowances, health-related benefits, education allowances, travel allowances, moving and evacuation allowances, death-related allowances and allowances for veteran's benefits, combat zone compensation and combat-related benefits, group term life insurance, premiums for survivor and retirement protection plans, mustering out payments, uniform allowances, and defense counsel.

This estimate reflects military benefits excluding pay received for Operation Iraqi Freedom and Operation Enduring Freedom as a separate estimate was done for compensation received from those military operations. Separate estimates were also made for Bosnia-Herzegovina duty, death forgiveness and student loan repayments. This estimate does not contain benefits received from military disability pensions as this is a separate federal tax expenditure from the federal tax expenditure from military benefits.

Military Disability Pensions Estimate – \$200,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 104(a)(4)

Gross income does not include amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in: (1) the armed forces of any country; (2) the National Oceanic and Atmospheric Administration (NOAA) (formerly the Coast and Geodetic Survey); or (3) the United States Public Health Service (PHS). Any amount received as a disability annuity under the provisions of section 808 of the Foreign Service Act of 1980 (22 USC §4048) is also excluded from gross income. The exclusion generally is limited to amounts received for combat-related injury or illness.

Moving Expenses..... Estimate - \$700,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 217

An employee or self-employed individual may deduct as an adjustment to gross income the expenses of moving the employee and family from one location to another if the move is related to starting work in a new location and the amount is reasonable. Deductible moving expenses are limited to the cost of transportation of household goods and personal effects and travel (including lodging but not meals) to the new residence. A taxpayer must meet a distance test, a length of employment test and a commencement of work test. The new residence must be at least 50 miles farther from the taxpayer's old residence than the old residence was from the former place of work. The move must be related to the start of work in a new location.

Employment must be for 39 weeks of the 12 months following the move. The taxpayer may still claim the adjustment, even though the 39 week requirement is not satisfied by the due date of the return. However, if the taxpayer ultimately fails to meet the 39 week requirement, he or she must either (1) file an amended return, or (2) include the amount previously claimed as an adjustment as income on next year's return.

Non-Farm Cancellation of Debt..... Estimate – Minimal

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 108

Generally, cancellation of indebtedness is included in income. There are four exceptions that are in order of priority: (1) a debt discharge in a bankruptcy action under Title 11 of the U.S. Code in which the taxpayer is under the jurisdiction of the court and the discharge is either granted by or is under a plan approved by the court, (2) a discharge when the taxpayer is insolvent outside bankruptcy, (3) a discharge of qualified farm indebtedness, and (4) a discharge of qualified real property business indebtedness.

This estimate does not include the tax expenditure for the discharge of farm indebtedness, which is estimated as a separate tax expenditure.

Non-Taxable Transfer of Property to a Spouse Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1041

No gain or loss is recognized for transfers of property from an individual to a spouse or to a former spouse incident to a divorce. These transfers are treated as a gift, and the transferor's basis for the transferred property is carried over to the transferee. In the case of a transfer to a former spouse, the transfer must occur within one year after the date on which the marriage ceased or must be related to the cessation of the marriage. This non-recognition treatment is not available for transfers to spouses or former spouses who are nonresident aliens.

Oil and Gas Passive Loss Exception..... Estimate – Minimal

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 469(c)(3)

When total deductions exceed income from passive activities, the net loss is not allowed as a deduction for that year. Such a net loss is suspended and carried forward as a deduction from the passive activity in the next tax year. However, limits on passive activity income do not apply to oil and gas property income.

One Half of Self-Employment Tax..... Estimate - \$14,100,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 164(f)

Instead of allowing the deduction of one-half of the self-employment tax as a business expense related to that self-employment, an adjustment to income is allowed in an amount equal to one-half of the amount of self-employment tax.

Parsonage Allowance Estimate - \$1,100,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 107

A licensed or ordained minister's gross income does not include the rental value of a home that is furnished to the minister as compensation for performing religious duties. In addition, an allowance that is paid as part of the minister's compensation, designated as a rental allowance, and used to rent or provide a home for the minister may be excluded from gross income.

Passive Loss Real Estate Exemption Estimate - \$11,100,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 469(l)

Passive losses may not offset income from other sources. Although rental activity is treated as passive activity, special rules apply to rental real estate activities in which a taxpayer actively participates. In the case of active participation, passive losses up to \$25,000 attributable to most real estate activities may be used to offset other income.

Pension Contributions and Earnings in 401(k) Plans..... Estimate - \$177,100,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 219, 401, 403, & 408

Individual taxpayers can make tax-preferred contributions to certain types of employer provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal government's Thrift Savings Plan). In 2005, an employee could exclude up to \$14,000 of wages from AGI under a qualified arrangement with an employer's 401(k) plan (\$15,000 in 2006 and indexed thereafter). The tax on the investment income earned by 401(k)-type plans is deferred until withdrawn. Employees are allowed to make after-tax contributions to 401(k) and 401(k)-type plans. These contributions are not excluded from AGI, but the investment income of such after-tax contributions is not taxed when earned or withdrawn.

Pension Contributions and Earnings in Employer Plans..... Estimate - \$186,800,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 401& 404

Certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by the pension plans is deferred until the money is withdrawn.

Pension Contributions to Individual Retirement Accounts Estimate - \$9,700,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 219 & 408

Individual taxpayers age 70 ½ or under can annually contribute to a traditional Individual Retirement Account (IRA) up to \$4,000 in 2005 (\$4,500 in 2005 if age 50 or older). If an individual is an active participant in an employer's retirement plan, the deduction begins to phase out for single taxpayers at \$50,000 of modified income, \$0 of modified income for federal married separate filers and \$70,000 of modified income for married joint filers. No deduction is allowed if modified income exceeds \$60,000 for single filers, \$10,000 for federal married separate filers and \$80,000 for married joint filers.

Pension Contributions to Self Employed Retirement Plans Estimate - \$12,200,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 401

Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their compensation up to a maximum of \$42,000 for tax year 2005.

Pension Earnings in Individual Retirement Accounts Estimate - \$12,600,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 408

The tax on the investment income earned by traditional Individual Retirement Accounts (IRA's) is deferred until the money is withdrawn. No tax is owed on investment earned by Roth IRA's.

Pension Earnings in Self Employed Retirement Plans Estimate - \$10,300,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 401

The tax on the investment income earned in self-employed retirement (Keogh) plans is deferred until the money is withdrawn.

Personal Injury Damages Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 104(a) (2)

The amount of any damages (other than punitive damages) received (whether by suit or agreement and whether as lump sums or as periodic payments) on account of personal physical injuries or physical sickness is excluded from income. Damages for emotional distress (including the physical symptoms of emotional distress) may not be treated as damages on account of a personal physical injury or sickness, except to the extent of an amount paid for medical care attributable to emotional distress.

Premature Withdrawal Interest Forfeiture Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 62(a)(9)

Interest that was previously earned on a time savings account or deposit with a savings institution and that is later forfeited because of premature withdrawals is deductible from gross income in the year when the interest is forfeited.

Public Assistance Benefits Estimate - \$1,300,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 61

Public assistance benefits are excludable from income. For example, payments made by a city or state to the blind or to crime victims may be excluded from gross income. Similarly, payments from housing assistance programs and payments from work training programs that are not intended as compensation may be excluded from income.

Residence as a Limited Rental..... Estimate – Not Estimated
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 280A(d)

If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, then the deduction of expenses related to that income is not allowed nor is any of the income reportable.

Scholarship and Fellowship Exclusion Estimate - \$6,200,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 117

Scholarships and fellowships are excluded from taxable income to the extent that they pay for tuition and course-related expenses of the grantee. These amounts include required tuition and fees as described in IRC Sec. 170(b)(1)(A)(ii) and fees, books, supplies, and equipment required for the student's courses of instruction. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income below the graduate level. However, if a student is a graduate student and engaged in teaching or research for the employing institution, tuition reductions are also not included in taxable income.

Solvent Farmer Discharge of Debt..... Estimate - \$200,000
Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-42.2 and IRC 108(g) & 1017(b)(4)

Income arising from the discharge of qualified farm indebtedness owed to an unrelated lender, including a federal, state, or local government or agency, or instrumentality thereof, may be excluded from a taxpayer's income if certain requirements are met. The debt must be incurred directly in connection with the operation by the taxpayer of the trade or business of farming. Also, this relief applies only if at least 50% of the taxpayer's aggregate gross receipts for the three tax years preceding the tax year in which the discharge of indebtedness occurs is attributable to farming. The discharge of debt income is excluded only to the extent that the implicit income from the debt discharge is offset or absorbed by tax attributes, such as net operating losses or capital losses, and the adjusted bases of qualified property. For example, the purchase price, or cost basis, of land purchased using farm debt which is discharged must be reduced by the amount of discharged debt, resulting in a higher taxable gain if the land is later sold at a profit.

Student Loan Interest Estimate - \$5,400,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 221

Taxpayers may claim an above-the-line deduction of up to \$2,500 on interest paid on an education loan. The maximum deduction is phased down ratably for taxpayers with modified adjusted gross income between \$105,000 and \$135,000 (\$50,000 and \$65,000 for singles).

Travel Expenses for State Legislators..... Estimate – Minimal

Citation: Iowa Code 2005 422.7(10) and IAC 701-40.31

State legislators whose personal residences in their legislative districts are more than 50 miles from the state capitol may claim the state authorized daily expense allowance (\$86) as an adjustment to income. State legislators whose personal residences in their legislative districts are 50 miles or less from the state capitol may claim a deduction for meals and lodging of \$50 per legislative day.

Utility Customer Conservation Subsidies Estimate - \$400,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 136

Gross income of a utility customer does not include the value of any subsidy provided (directly or indirectly) by a public utility to a non-business customer for the purchase or installation of any energy conservation measure.

Veteran Education Benefits..... Estimate - \$200,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 61 & 117

Payments of benefits under any law administered by the Veterans Administration are excludable from the recipient's gross income. Thus, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

Workers' Compensation Benefits Estimate - \$16,400,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 104

Benefits received by an employee under a workers' compensation act providing compensation to employees for personal injuries or sickness incurred in the course of employment are excludable from gross income. The exclusion also applies to benefits paid under a workers' compensation act to the survivor or survivors of an employee who died of injuries incurred in the course of employment.

Workers' Compensation for Coal Miners Estimate – Minimal

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 104

Disability payments to former coal miners out of the Black Lung Trust Fund, although they are income, are not subject to tax. The purpose of the Black Lung Trust Fund is to provide benefits, in cooperation with the States, to coal miners who are totally disabled due to pneumoconiosis (black lung disease) and to the surviving dependents of miners whose deaths were due to such disease, and to ensure that, in the future, adequate benefits are provided to coal miners and their dependents in the event of their deaths or total disability due to pneumoconiosis. These benefits are of the nature of workers' compensation.

Workers' Compensation Premiums Estimate - \$1,000,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 104

Workers compensation insurance premiums are paid by employers and deducted as a business expense. The premiums are not included in employee gross income.

Individual Income Tax - Iowa Specific

Accelerated Career Education Program (ACE) (260G) Withholding Tax Credit.....	\$5,700,000
Alternative Minimum Tax Exclusions.....	\$11,300,000
Annuity Passed Through Estate	Not Estimated
Blind Personal Credit	Minimal
Child and Dependent Care Tax Credit	\$8,800,000
Dependent Exemption Credit	\$27,900,000
Disability Income Exclusion.....	Minimal
Early Retirement Withdrawal by Guard or Reserve Members	Not Estimated
Earned Income Tax Credit	\$8,900,000
Elderly Personal Credit	\$3,300,000
Enterprise Zone Program (EZ) Housing Assistance Tax Credit from Withholding	\$0
Exclusion of Capital Gains Income from Distressed Sales	Not Estimated
Federal Tax Deduction.....	\$505,400,000
Franchise Tax Credit.....	\$7,800,000
Holocaust Victims Income	Not Estimated
Indexation of the Standard Deduction	\$1,200,000
Individual Development Accounts	Not Estimated
Iowa Capital Gains Deduction for Agricultural Property	\$12,800,000
Iowa Capital Gains Deduction for Non-Agricultural Property	\$27,300,000
Iowa Educational Savings Plan Trust (College Savings Iowa 529 Plan) Deduction	\$4,900,000
Iowa Health Insurance Deduction.....	\$62,500,000
Iowa Industrial New Jobs Training Program (260E) Supplemental Withholding Tax Credit	\$1,700,000
Iowa Industrial New Jobs Training Program (260E) Withholding Tax Credit.....	\$25,600,000
Iowa Social Security Exemption	\$31,200,000
Itemized Deduction for Other Iowa Only Miscellaneous Deductions.....	\$1,000,000
Itemized Deduction for State Sales Tax in Lieu of Income Tax.....	\$3,100,000
Low-Income Alternate Tax	\$5,100,000
Military Duty in Bosnia-Herzegovina.....	Minimal
Military Duty in Operation Iraqi Freedom and Operation Enduring Freedom	\$2,700,000
Military Related Death Tax Forgiveness.....	Minimal
Military Student Loan Repayments.....	Minimal
Minimum Income Filing Requirements	\$7,600,000

Minimum Income Rule for Single Filers.....	\$1,400,000
Nonresident/Part-Year Resident Tax Credit	\$1,778,400,000
Out-of-State Tax Credit.....	\$59,900,000
Partial Pension Exclusion.....	\$76,600,000
Personal Exemption Credit.....	\$61,200,000
Reciprocal Agreement with Illinois.....	\$11,000,000
S Corporation Apportionment Tax Credit.....	\$35,400,000
Standard Deduction	\$58,300,000
Tax Limited to Net Worth Before a Distressed Sale.....	Not Estimated
Tuition and Textbook Tax Credit	\$14,900,000
Unreimbursed Human Organ Transplant Expenses	Not Estimated
Unskilled In-Home Health Care Service	Not Estimated

Accelerated Career Education Program (ACE) (260G)

Withholding Tax Credit..... Estimate - \$ 5,700,000

Citation: Iowa Code 2005 260G & 422.16 and IAC 261-20 & 701-46.7

The purpose of the Accelerated Career Education Program (ACE) is to assist Iowa's Community Colleges to either establish or expand programs that train individuals in the occupations most needed by Iowa businesses. The ACE program allows participating companies to divert a portion of the company's current Iowa individual income withholding tax, based on the number of seats in a training program sponsored by a business. Businesses participating in the program shall divert taxes equivalent to 10 percent of the hiring wage that a sponsoring business would pay to an individual that completes the programs' requirements (with a minimum wage level of no less than 200 percent of the federal poverty guideline for a family of two). The diversion goes to the community college over the life of the agreement (usually five years). The business also provides a 20 percent match of the program costs pro-rated by the percentage of seats sponsored. To be eligible for the program a business must be engaged in interstate or intrastate commerce for the purpose of manufacturing, processing, or assembling products; construction; conducting research and development; or providing services in interstate or intrastate commerce.

Alternative Minimum Tax Exclusions Estimate - \$11,300,000

Citation: Iowa Code 2005 422.5(1)(k)(2) and IAC 701-39.6(3)(a)(3)

In determining the Iowa minimum tax, which is imposed to the extent that it exceeds regular tax liability, minimum taxable income is reduced by an exemption before application of the tax. Exemption amounts are: \$17,500 for a married person filing a separate return or filing separately on the same return or for an estate or trust; \$26,000 for a single person or an unmarried head of household or qualifying widow(er); \$35,000 for a married couple filing a joint return. The applicable exemption amounts are reduced, but not below zero, by 25% of the amount by which the minimum taxable income of the taxpayer, determined without the exemption amount, exceed \$75,000 for a married taxpayer filing separate returns or separately on the combined return or for an estate or trust; \$112,500 for a single taxpayer, unmarried head of household, or a surviving spouse; \$150,000 for a married couple filing jointly.

Annuity Passed Through Estate Estimate – Not Estimated

Citation: Iowa Code 2005 422.7(4) and IAC 701-40.1& 40.59

All payments received by a beneficiary of a deceased pensioner or annuitant are exempt from Iowa income tax to the extent the payments are from an annuity purchased under an employee's pension or retirement plan when the commuted value of the installments has been included as a part of the decedent employee's estate for Iowa inheritance tax purposes.

Blind Personal Credit..... Estimate – Minimal

Citation: Iowa Code 2005 422.12(1)(e) and IAC 701-42.2(1)(f)

An exemption credit of \$20, in addition to any other exemption credit, is allowed for each taxpayer who is blind on or before the first day following the end of the tax year. A nonresident taxpayer or part-year resident may deduct exemption credits as if they were residents for the entire year.

Child and Dependent Care Tax Credit Estimate - \$8,800,000

Citation: Iowa Code 2005 422.12C and IAC 701- 42.9

The Child and Dependent Care Tax Credit is a refundable tax credit computed as a percentage of the federal child and dependent care tax credit allowed in Section 21 of the Internal Revenue Code. For 2005, the percentages of the federal credit allowed for Iowa purposes, which vary by size of net income, are:

- < \$10,000 - 75%
- \$10,000 to \$19,999 - 65%
- \$20,000 to \$24,999 - 55%
- \$25,000 to \$34,999 - 50%
- \$35,000 to \$39,999 - 40%
- > \$39,999 - No Credit

Beginning in 2006, taxpayers with net incomes from \$40,000 to \$44,999 may claim an Iowa credit equal to 30% of the federal credit. Taxpayers with income \$45,000 or more may not claim the credit.

Dependent Exemption Credit Estimate - \$27,900,000
Citation: Iowa Code 2005 422.12 (1)(c) and IAC 701-42.2(1)(c)

A credit of \$40 may be deducted from computed tax for each dependent. The total credits may not exceed the computed tax. "Dependent" has the same meaning as provided by the Internal Revenue Code with the same dependents that may be claimed for federal income tax eligible to be used to claim the Iowa credit. If each spouse furnished 50 percent of the support for a dependent, they may elect between them which spouse is to be entitled to claim the dependent credit. The dividing of dependent credits applies only to the number of dependents and not to the money credits for a particular dependent.

Disability Income Exclusion Estimate – Minimal
Citation: Iowa Code 2005 422.7(5) and IAC 701-40.22

A taxpayer who is permanently and totally disabled and has not attained age 65 by the end of the tax year or reached mandatory retirement age can exclude a maximum of \$100 per week of payments received in lieu of wages. In order for the payments to qualify for the exclusion, the payments must be made under a plan providing payment of such amounts to an employee for a period during which the employee is absent from work on account of permanent and total disability. In the case of a married couple where both qualify, each is eligible for an annual exclusion of up to \$5,200. There is a reduction in the exclusion, dollar for dollar to the extent that the taxpayer's income exceeds \$15,000. Each spouse is considered separately. There is no exclusion if incomes exceed \$20,200

Early Retirement Withdrawal by Guard or Reserve Members..... Estimate – Not Estimated
Citation: Iowa Code 2005 422.7(38) and IAC 701-40.58

For tax years beginning on or after January 1, 2002, members of the Iowa National Guard or members of military reserve forces of the United States who are ordered to state military service or federal service or duty who receive distributions during the tax year from qualified retirement plans do not need to include those distributions as Iowa income subject to the Iowa income tax even if the distributions were taxable for federal income tax purposes. In addition, the members are not subject to state penalties on the distributions even though the members may have been subject to federal penalties on the distributions for early withdrawal of benefits. Because the distributions described above are not taxable for Iowa income tax purposes, a National Guard member or armed forces reserve member who receives a distribution from a qualified retirement plan may request that the payer of the distribution not withhold Iowa income tax from the distribution.

Earned Income Tax Credit..... Estimate - \$8,900,000

Citation: Iowa Code 2005 422.12B and IAC 701-42.2(9)

A nonrefundable state earned income credit is allowed against any Iowa income tax at the rate of 6.5% of any earned income credit to which the taxpayer is entitled to on the taxpayer's federal income tax return as authorized in Section 32 of the Internal Revenue Code. In the case of married taxpayers who file a joint federal return and who elect to file separate state returns or separately on the combined return form, the state earned income credit is allocated between the spouses in the ratio that each spouse's earned income relates to the earned income of both spouses. Nonresidents and part-year residents are allowed the same earned income credits as resident taxpayers.

Elderly Personal Credit..... Estimate - \$3,300,000

Citation: Iowa Code 2005 422.12(1)(d), 422.12(1)(e) and IAC 701-42.2 (1)(f)

An exemption credit of \$20, in addition to the personal exemption credit, is allowed for each taxpayer who is 65 years of age on or before the first day following the end of the tax year. A nonresident taxpayer or part-year resident may deduct exemption credits as if they were residents for the entire year.

Enterprise Zone Program (EZ)

Housing Assistance Tax Credit from Withholding Estimate - \$0

Citation: Iowa Code 2005 15A.9 (5)

To encourage investment in Iowa's economically distressed areas, local and state tax credits, refunds and exemptions are available for qualifying companies that expand or locate in designated Enterprise Zones. To receive these benefits the business must make a minimum capital investment of \$500,000, create at least 10 full-time, project-related jobs and maintain them for at least 10 years, provide all full-time employees with the option of choosing a standard medical and dental insurance plan of which the business pays 80 percent of the premiums or a monetarily equivalent benefit, pay an average wage that meets or exceeds 90 percent of the average county or regional wage, whichever is lower. The business can not be a retail establishment or a business whose entrance is limited by cover charge or membership and cannot close or reduce its operation in one area of the state and relocate substantially the same operation in the Enterprise Zone. The local Enterprise Zone Commission and the Iowa Department of Economic Development must approve the business' proposed project prior to project initiation.

One of the tax incentives a business participating in EZ may receive is a Housing Assistance Tax Credit from Withholding.

Exclusion of Capital Gains Income from Distressed Sales..... Estimate – Not Estimated

Citation: Iowa Code 2005 422.7(16) and IAC 701-40.27

Gains from sales, exchanges, or transfers of property may be excluded from net income, if the gains are considered to be distressed sale transactions. In order to be a distressed sale transaction, the transaction must involve forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt or from the sale or exchange of property as a result of actual notice of foreclosure. Also, the transaction must have these qualifications: (1) the forfeiture, transfer, or sale or exchange must be done to establish a positive cash flow; (2) immediately before the transaction, the taxpayer's debt to asset ratio must exceed 90%; and (3) the taxpayer's net worth at the end of the tax year must be less than \$75,000. Except where married taxpayer's live apart, their assets must be considered together for purposes of qualifying.

Federal Tax Deduction..... Estimate - \$505,400,000

Citation: Iowa Code 2005 422.9(2)(b) and IAC 701-41.3

Federal income taxes paid or accrued during the tax year may be deducted from Iowa income subject to tax. Taxpayers who are not on an accrual basis of accounting are to deduct their federal income taxes in the year paid. Deductible federal income taxes for cash basis taxpayers include: (1) the entire amount of federal income tax withheld from compensation during the tax year, (2) the tax paid at any time during the tax year on a filing of federal estimated tax or on any amended filing, (3) any additional federal tax on a prior federal return paid during the tax year, and (4) reduction of any amount to be deducted by any refund of federal income tax received during the tax year if the amount had been deducted on the Iowa return in a prior year.

Franchise Tax Credit..... Estimate - \$7,800,000

Citation: Iowa Code 2005 422.11 and IAC 701-42.12

A shareholder in a financial institution, as defined in Section 581 of the Internal Revenue Code, which has elected to have its income taxed directly to the shareholders, may take a tax credit not to exceed the shareholder's pro-rata share of the Iowa franchise tax paid by the financial institution.

Holocaust Victims Income..... Estimate – Not Estimated

Citation: Iowa Code 2005 217.39 & 422.7(35) and IAC 701-40.55

Income payments received by individuals because they were victims of the Holocaust or income payments received by individuals who are heirs of victims of the Holocaust are excluded in the computation of net income to the extent the payments were included in the individuals' federal adjusted gross income. Victims of the Holocaust were victims of persecution in the World War II era for racial, ethnic or religious reasons by Nazi Germany or other Axis regime. Holocaust victims may receive income payments for slave labor performed in the World War II era. Income payments may also be received by Holocaust victims as reparation for assets stolen from, hidden from, or otherwise lost in the World War II era, including proceeds from insurance policies of the victims. The World War II era includes the time of the war and the time immediately before and immediately after the war. However, income from assets acquired with the income payments or from the sale of those assets shall not be excluded from the computation of net income. The exemption of income payments shall only apply to the first recipient of the income payments who was either a victim of persecution by Nazi Germany or any other Axis regime or an heir of the victim of persecution.

Indexation of the Standard Deduction..... Estimate - \$1,200,000

Citation: Iowa Code 2005 422.4(2) & 422.9(1) and IAC 701-38.12

The standard deduction amounts for a given tax year require that the statutory amount (the tax year 1989 standard deduction) be multiplied by the current cumulative inflation factor. The "cumulative inflation factor" is determined by multiplying the prior year's cumulative inflation factor by a newly calculated annual inflation factor. The "annual standard deduction factor" is an index expressed as a percentage which reflects the purchasing power of the dollar as a result of inflation. In determining the annual inflation factor, use is made of the annual percent change (but not less than zero percent) in the gross domestic product implicit price deflator computed for the second quarter of the calendar year, as determined by the Bureau of Economic Analysis of the United States Department of Commerce.

Once these calculations are performed, the results are then rounded to the nearest ten dollars. For tax year 2005, the standard deduction amount is \$1,610 for singles and married separate filers - up from \$1,580 in 2004. For all other filing statuses, the 2005 standard deduction was \$3,970, which is an increase from the 2004 amount of \$3,880.

Individual Development Accounts..... Estimate – Not Estimated

Citation: Iowa Code 2005 422.7(28) & 541A.3 and IAC 701-40.44

Authorized low-income individuals may have individual development accounts established for them by appropriate agencies. The accounts are to provide a means to pay in advance for education, housing, business establishment, and emergency medical expenses. The following additions to individual development accounts are exempt from the state income tax of the owners of the accounts to the extent the additions were subject to federal income tax: (1) contributions made by persons and entities other than the owner of the account, (2) the amount of any savings refund made to an account as authorized for contributions made to the accounts by the owner of the account, and (3) earnings on the account or interest earned on the account.

Iowa Capital Gains Deduction for Agricultural Property Estimate - \$12,800,000

Citation: Iowa Code 2005 422.7(21) and IAC 701-40.38

This estimate includes:

- Iowa Capital Gains Deduction for Breeding Stock
- Iowa Capital Gains Deduction for Cattle and Horses
- Iowa Capital Gains Deduction for Real Property
- Iowa Capital Gains Deduction for Timber

All of the income from capital gains on the sale of selected types of agricultural property is excluded from Iowa taxation. The types of property are: (1) Real property used in a farming business in which the taxpayer materially participated for 10 years prior to the sale, and which has been held for a minimum of 10 years immediately prior to its sale, (2) Cattle and horses used for breeding, draft, dairy or sporting purposes and held for 24 months by the taxpayer who received in excess of 50% of his or her gross income from farming and ranching, (3) Breeding livestock, other than cattle and horses, held for 12 months by the taxpayer who received in excess of 50% of his or her gross income from farming or ranching, (4) Timber held by the taxpayer for more than one year.

In the case of the sale of cattle, horses and other livestock provisions, the taxpayer must receive one-half of his or her income from farming or ranching operations in order to claim the deduction. However, if the sale is to a lineal descendent, the income requirement does not apply.

Iowa Capital Gains Deduction for Non-Agricultural Property Estimate - \$27,300,000

Citation: Iowa Code 2005 422.7(21) and IAC 701-40.38

This estimate includes:

- Iowa Capital Gains Deduction for Business
- Iowa Capital Gains Deduction for Real Property

All of the income from capital gains on the sale of selected types of non-agricultural property is excluded from Iowa taxation. The types of property are: (1) Real property used in a non-agricultural business in which the taxpayer materially participated for 10 years prior to the sale, and which has been held for a minimum of 10 years immediately prior to its sale, (2) A business in which the taxpayer was employed or in which the taxpayer materially participated for 10 years and which has been held for a minimum of 10 years immediately prior to its sale.

A "business" includes any activity engaged in by a person with the object of gain, benefit, or advantage. The "sale of a business" means the sale of at least 90% of the value of all the tangible personal property or service of a business which is intangible personal property. If the sale of a business is to a lineal descendant, the requirement for material participation does not apply.

Iowa Educational Savings Plan**(College Savings Iowa 529 Plan) Deduction..... Estimate - \$4,900,000***Citation: Iowa Code 2005 422.7(32) and IAC 40.53(1)*

The Iowa educational savings plan (College Savings Iowa 529 Plan) trust was created so that individuals can contribute funds on behalf of beneficiaries in accounts administered by the state treasurer to cover future higher education costs of the beneficiaries. An individual can claim a deduction from income subject to tax for contributions made by that individual to the Iowa educational savings plan trust on behalf of a beneficiary or beneficiaries. For 2005, the maximum deduction is \$2,379 per beneficiary (the limit is indexed for inflation each year).

Iowa Health Insurance Deduction Estimate - \$62,500,000*Citation: Iowa Code 2005 422.7(29) and IAC 701-40.48*

Amounts paid by a taxpayer for health insurance for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents are deductible in computing net income on the Iowa return to the extent the amounts paid are not otherwise deductible for Iowa tax purposes. Amounts paid on a "pretax" basis may not be deducted. For purposes of the state deduction for health insurance, the same premiums for health insurance or medical insurance coverage qualify as would qualify for the federal medical expense itemized deduction. Among the types of insurance that are included are: general medical and dental insurance, contact lens insurance, premiums paid before age 65 for medical insurance effective after the age of 65, and premiums for long-term health care services.

The federal deduction for health insurance premiums is restricted to self-employed taxpayers; however the Iowa deduction is not subject to this limitation.

Iowa Industrial New Jobs Training Program (260E)**Withholding Tax Credit..... Estimate - \$25,600,000***Citation: Iowa Code 2005 260E, 15A.7, 15A.8, & 422.16A and IAC 261-5.6 & 701-46.8 & 46.9*

A credit of one and one-half percent of the gross wages of new employees is allowed against withholding to be submitted to the State by a qualifying industrial business with a training agreement with the Community College of the merged area within which the industry is located. The Iowa Industrial New Jobs Training Credit is to be paid to the Community College to retire bonds that have been issued to pay for the training of workers for the new jobs for the new or expanding industry. Industry includes a business which is engaged in interstate or intrastate commerce for the purpose of manufacturing, processing or assembling products, conducting research and development or providing services in interstate commerce. Retail, health or professional services are excluded.

Iowa Industrial New Jobs Training Program (260E)**Supplemental Withholding Tax Credit..... Estimate - \$1,700,000***Citation: Iowa Code 2005 260E, 15A.7, 15A.8, & 422.16A and IAC 261-5.6 & 701-46.8 & 46.9*

A credit of one and one-half percent of the gross wages of new employees is allowed against withholding to be submitted to the State by a qualifying industrial business with a training agreement with the Community College of the merged area within which the industry is located. The Iowa Industrial New Jobs Training Credit is to be paid to the Community College to retire bonds that have been issued to pay for the training of workers for the new jobs for the new or expanding industry. Industry includes a business which is engaged in interstate or intrastate commerce for the purpose of manufacturing, processing or assembling products, conducting research and development or providing services in interstate commerce. Retail, health or professional services are excluded.

The supplemental withholding tax credit can be awarded to qualifying businesses which are also participating in the Enterprise Zone Program (EZ) or the New Jobs and Income Program (NJIP) and awards an additional one and one-half percent of the gross wages of qualifying employees.

Iowa Social Security Deduction Estimate - \$31,200,000*Citation: Iowa Code 2005 422.7(13) and IAC 40.23(2)*

Although up to 85 % of social security benefits received can be taxed for federal income tax purposes, no more than 50% of social security benefits can be taxed for Iowa individual income tax purposes. The amount of social security benefits that is subject to tax is the lesser of one-half of the annual benefits received in the tax year or one-half of the taxpayer's provisional income over a specified base amount. The provisional income is the taxpayer's modified adjusted gross income plus one-half of the social security benefits and one-half of the railroad retirement benefits received. Although railroad retirement benefits are not taxable, one-half of the railroad retirement benefits received may be used to determine the amount of social security benefits taxable for Iowa purposes.

Itemized Deduction for Other Iowa Only Miscellaneous Deductions .. Estimate - \$1,000,000*Citation: Iowa Code 2005 422.9 (2) and IAC 701-41.5*

This estimate includes:

- Itemized Deduction for Adoption Expenses
- Itemized Deduction for Disabled Relative Care Expenses
- Itemized Deduction for Additional Volunteer Work Mileage

Iowa taxpayers may deduct additional miscellaneous expenses on their Iowa return even though such deductions are not allowed on the federal return.

Itemized Deduction for State Sales Tax in Lieu of Income Tax Estimate - \$3,100,000

Citation: Iowa Code 2005 422.9(2)(i)

The itemized deduction for state sales and use taxes is allowable only if the taxpayer elected to deduct the state sales and use taxes in lieu of state income taxes under section 164 of the Internal Revenue Code. A deduction for state sales and use taxes is not allowed if the taxpayer elected to deduct state income taxes or claimed the standard deduction under section 63 of the Internal Revenue Code. This paragraph applies to taxable years beginning after December 31, 2003, and before January 1, 2008.

Low-Income Alternate Tax..... Estimate - \$5,100,000

Citation: Iowa Code 2005 422.5(2) and IAC 701-39.9

A special tax computation is available for determining the state income tax liability for all low-income taxpayers except single taxpayers. The taxpayer multiplies the net income for the tax year in excess of \$13,500 by the maximum individual income tax rate, currently 8.98%. The tax amount so computed is then compared to the tax amount on the individual's taxable income from the tax tables or the tax-rate schedule. The taxpayer is subject to the lesser of the two tax amounts.

Military Duty in Bosnia-Herzegovina Estimate – Minimal

Citation: Iowa Code 2005 422.7(25) and IAC 701-40.51

For active duty military pay received on or after November 21, 1995, by National Guard personnel and by armed forces military reserve personnel, the pay is exempt from state income tax to the extent the military pay was earned overseas for services performed pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area.

**Military Duty in Operation Iraqi Freedom and
Operation Enduring Freedom Estimate - \$2,700,000**

Citation: Iowa Code 2005 422.7(40) and IAC 701-40.61

Military active duty pay received by persons in the National Guard and persons in the armed forces military reserve for service on or after January 1, 2003, pursuant to military orders related to Operation Iraqi Freedom, Operation Noble Eagle (security missions in North America) or Operation Enduring Freedom (Afghanistan). The individual does not have to be serving overseas to qualify for the exemption, but can be serving elsewhere under the appropriate military orders and still qualify for the exemption. This estimate is the tax expenditure for Operations Iraqi Freedom and Enduring Freedom. Any tax expenditure resulting from Operation Noble Eagle is contained in the Military Benefits tax expenditure, as the Department of Defense was unable to provide data that was specific to Operation Noble Eagle. Furthermore, this estimate includes regular military personnel serving in Operation Iraqi Freedom or Operation Enduring Freedom (who are exempt federal tax law and therefore Iowa tax law), as well as National Guard and military reserve personnel.

Military Related Death Tax Forgiveness..... Estimate – Minimal

Citation: Iowa Code 2005 422.5(10) & 422.73 and IAC 701-39.11

An individual's Iowa income tax is forgiven if the person's federal income tax was forgiven because the individual was killed in a combat zone, the individual was missing in action and presumed dead, or the individual was killed outside the United States due to terrorist or military action while the person was a military or civilian employee of the United States. The tax is forgiven on the return of the year of death and on the return prior to that year. If a person was married and filed jointly, the entire tax on the return is forgiven for both the year of death and for the prior year. If a person was married and filed separately on combined returns, the entire tax on the return is forgiven for the year of death, but only the tax attributable to the deceased is forgiven for the prior year.

Military Student Loan Repayments..... Estimate – Minimal

Citation: Iowa Code 2005 422.7(42) and IAC 701-40.63

Individuals serving on active duty in the National Guard, armed forces military reserve or the armed forces of the United States may subtract, to the extent included in federal adjusted gross income, income from military student loan repayments made to the taxpayer on or after January 1, 2003.

Minimum Income Filing Requirements..... Estimate - \$7,600,000

Citation: Iowa Code 2005 422.5(2) and IAC 701-39.1(1)(b)

Each year a return must be filed for every resident whose net income is greater than \$9,000 for single persons, or \$13,500 for all other filing statuses. Each resident who is claimed as a dependent on another person's Iowa return must file a return if their net income is \$5,000 or more. Nonresidents with income from Iowa sources of at least \$1,000 must also file a return. Income from all sources, including that which is not allocable to Iowa shall be considered in this comparison and pensions and other retirement income otherwise excludable under the government pension exclusion shall be considered. If a married couple has a combined income of \$13,500 or less, neither spouse may consider this benefit if one spouse has a net operating loss and elects to carry back or carry forward the loss.

Minimum Income Rule for Single Filers Estimate - \$1,400,000

Citation: Iowa Code 2005 422.5(2) and IAC 701-39.5(10)(c) & 39.5(11)(b)

If subtracting the payment of tax from net income, including any lump-sum distribution, would produce a result of less than \$9,000 for single taxpayers, then the tax that is due is limited to the amount that would produce a result of income less tax equal to \$9,000. Any pension exclusion must be added to income in consideration of the \$9,000 limit. Single taxpayers are not eligible for the alternate tax rate calculation.

Nonresident/Part-Year Resident Tax Credit Estimate - \$1,778,400,000

Citation: Iowa Code 2005 422.8(2)(a) and IAC 701-42.3

An individual who is a nonresident of Iowa for the entire tax year or for a part of the tax year is allowed a credit against the individual's Iowa income tax liability for the Iowa income tax on the portion of the individual's income which was earned outside Iowa while the person was a nonresident of Iowa. If the nonresident's or part year resident's Iowa source net income is less than \$1,000, the taxpayer is not subject to Iowa income tax and is not required to file an Iowa return unless the person is subject to Iowa minimum tax.

This is an administrative tax credit that prevents the double taxation of non-Iowa source income.

Out-of-State Tax Credit..... Estimate - \$59,900,000

Citation: Iowa Code 2005 422.8(1) and IAC 701-42.4

This estimate includes:

- Out-of-State Tax Credit for Minimum Taxes Paid

Iowa residents are allowed an out-of-state tax credit for taxes paid to another state or foreign country on income which is also reported on the taxpayer's Iowa return. The out-of-state tax credit is allowable only on income earned while an Iowa resident. The amount of income tax actually paid to other states or countries may be deducted from Iowa net tax as long as the credit does not exceed the amount of Iowa net income tax on the same income which was taxed by the other state.

This is an administrative tax credit that prevents the double taxation of non-Iowa source income.

Partial Pension Exclusion Estimate - \$76,600,000

Citation: Iowa Code 2005 422.7(31) and IAC 701-40.47

Effective for tax years beginning or after January 1, 2001, for a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual who would have qualified, subtraction from income subject to tax is made for pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any plans, up to a maximum of \$6,000 for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of \$12,000 for a husband and wife who file a joint state income tax return, separate returns or separately on combined returns.

Personal Exemption Credit Estimate - \$61,200,000

Citation: Iowa Code 2005 422.12(1) and IAC 701-42.2(1)

Personal exemption credits may be deducted from computed tax, but may not exceed the computed tax. Personal credits allowed on each return by filing status are:

- Single - \$40
- Married filing jointly - \$80
- Married filing separately on separate returns or for each on combined returns - \$40
- Head of Household - \$80
- Qualifying widow(er) - \$40
- Estates and trusts - \$40

A married person living with a spouse at the close of the tax year, or living with a spouse at the time of the spouse's death during the tax year, may deduct the entire married filing jointly credit. If a couple files a separate return, each spouse may deduct the credit separately with no division of the credit in any proportion. A nonresident taxpayer or part-year resident may deduct personal exemption credits as if they were residents for the entire year.

Reciprocal Agreement with Illinois Estimate - \$11,000,000

Citation: Iowa Code 2005 422.8(5) and IAC 701-38.13

The Department of Revenue may, when it is cost-efficient, administratively feasible, and of mutual benefit to Iowa and another state, enter into a reciprocal tax agreement with tax administration agencies of the other state. Under this agreement, income earned from personal services in Iowa by resident of the other state will be exempt from Iowa income tax if the other state provides an identical exemption from its state income tax for Iowa residents working in that state. "Income earned from personal services" includes: wages, salaries, commissions, tips, and earned income from other sources. Illinois is the only state with which a reciprocal agreement is in effect.

S Corporation Apportionment Tax Credit Estimate - \$35,400,000

Citation: Iowa Code 2005 422.5(1)(j)(2) and IAC 701-50.1

Resident shareholders of all S corporations which carry on business within and outside Iowa may, at their election, determine the S corporation income allocable to sources within Iowa by allocation and apportionment of the S corporation income. If apportioning is used, the resident shareholder must include as income subject to tax the larger of apportioned income or any distributions from the corporation. A state tax credit is provided for the portion of the shareholder's reported income that is generated outside of Iowa.

Standard Deduction Estimate - \$58,300,000

Citation: Iowa Code 2005 422.9(1) and IAC 701-41.4

Taxpayers may choose to take the standard deduction rather than itemizing deductions. For 2005, the deduction equals \$3,970 for a married couple filing jointly, a surviving spouse or unmarried head of household and \$1,610 for a married person filing separately or a single person.

Tax Limited to Net Worth Before a Distressed Sale Estimate – Not Estimated
Citation: Iowa Code 2005 422.5(6) and IAC 701-39.8

Taxpayers whose net incomes include gains or losses from distressed sales may limit their state income tax liabilities to their net worth immediately before the distressed sales for the tax years in which the distressed sale occurs. The state income tax liability is the aggregate of the income tax plus the taxpayer's minimum tax and the taxpayer's lump-sum tax. A "distressed sale" is the forfeiture of an installment real estate contract, the transfer of real or personal property securing a debt to a creditor in cancellation of that debt, or from the sale or exchange of property as a result of actual notice of foreclosure.

Tuition and Textbook Tax Credit..... Estimate - \$14,900,000
Citation: Iowa Code 2005 422.12(2) and IAC 701-42.2(8)

All taxpayers may claim a tuition and textbook credit of 25% on up to \$1,000 of qualifying expenditures per dependent in grades kindergarten through grade 12 in Iowa at an accredited nonprofit school adhering to the provisions of the United States Civil Rights Act of 1964. Where there are separate tuition charges for classes for religious instruction, those tuition charges do not qualify. If the tuition covers all charges including extracurricular activities, the tuition must be prorated to allow consideration of only classes for subjects legally and commonly taught in public schools in Iowa. Divorced or separated taxpayers who pay amounts for tuition and textbooks for dependents may claim the credit if they claim them as dependents on the Iowa return. In the case of married taxpayers filing separate returns or separately on combined returns, the credit must be allocated based on proportionate incomes.

Unreimbursed Human Organ Transplant Expenses Estimate – Not Estimated
Citation: Iowa Code 2005 422.7(44) and IAC 701-40.66

A taxpayer, while living, may subtract up to \$10,000 in unreimbursed expenses that were incurred relating to the taxpayer's donation of all or part of a liver, pancreas, kidney, intestine, lung or bone marrow to another human being for immediate human organ transplantation. The taxpayer can claim this adjustment only once and only in the year in which the transplant occurred. The unreimbursed expenses must not be compensated by insurance to qualify for the adjustment. The unreimbursed expenses which are eligible for the adjustment include travel expenses, lodging expenses and lost wages. If the adjustment is claimed for travel expenses and lodging expenses, these expenses cannot also be claimed as an itemized deduction for medical expenses under Section 213(d) of the Internal Revenue Code for Iowa tax purposes. The adjustment for lost wages does not include any sick pay or vacation pay reimbursed by an employer.

Unskilled In-Home Health Care Service..... Estimate – Not Estimated

Citation: Iowa Code 2005 422.7(27) and IAC 701-40.43

Supplemental assistance payments, authorized under Iowa Code section 249.3(2)"a"(2) which are received by an individual providing unskilled in-home health care services to a member of the caregiver's family are exempt from state income tax to the extent that the individual caregiver is not a licensed health care professional. For purposes of this exemption, a member of the caregiver's family includes a spouse, parent, step-parent, child, stepchild, brother, stepbrother, sister, stepsister, lineal ancestor, such as a grandparent, and lineal descendant, such as a grandchild. Those licensed health care professionals that are not eligible for this exemption include medical doctors, doctors of osteopathy, physician assistants, psychologists, podiatrists, chiropractors, physical therapists, occupational therapists, nurses, dentists, dental hygienists, optometrists, speech pathologists and audiologists.

Individual and Corporate Income Tax - Federal Base

Agricultural Cost-Sharing Payments.....	\$1,100,000
Alcohol Fuel Credit Deduction	\$900,000
Employment Stock Ownership Plan (ESOP)	\$13,200,000
Life Insurance Accelerated Death Benefit	\$100,000
Life Insurance and Annuity Interest.....	\$72,000,000
Life Insurance Death Benefits	\$15,800,000
Livestock Involuntary Conversion.....	Minimal
Percentage Depletion – Fuel Producers.....	\$200,000
Percentage Depletion – Non-Fuel Minerals	\$1,200,000
Tax Free Exchange of Contracts.....	Not Estimated
Tax Free Like-Kind Exchanges	\$7,800,000

Agricultural Cost-Sharing Payments Estimate - \$1,100,000

Citation: Iowa Code 2005 422.3(5) and IAC 41.2 and IRC 126 & 1255

Agricultural cost-sharing payments may be excluded in whole or in part from income if three conditions are met: The United States Secretary of Agriculture certifies that the payment services to conserve soil and water resources, improve forests, or provide a habitat for wildlife; the Internal Revenue Service determines that the improvement does not substantially increase the annual income from the property; and the payment is for a capital expense. No deductions, depreciation, amortization, or depletion may be claimed with respect to any such amount excluded from income. If the property (or improvement) purchased with the payments is disposed of within 20 years, the payment amounts are recaptured as ordinary income. A 100% recapture rate applies if disposition occurs within the first 10 years, with an annual decrease of 10% thereafter.

Alcohol Fuel Credit Deduction Estimate - \$900,000

Citation: Iowa Code 2005 422.7(9) & 422.35(7) and IAC 701-40.9, 41.2 & 53.10(2) and IRC 40

The amount of credit allowable for the federal alcohol fuels credit, as provided in Section 40 of the Internal Revenue Code, is a deduction from Iowa taxable income to the extent that use of the federal credit increased income.

Employment Stock Ownership Plan (ESOP)..... Estimate - \$13,200,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 409

Employee Stock Ownership Plans (ESOPs) are a special type of tax exempt employee benefit plan. Employer paid contributions (the value of the stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes until they are paid out as benefits. The special income tax provisions are intended to encourage employee ownership. Among the special provisions are: (1) ESOPs may borrow to buy employer stock to be guaranteed by payment of a portion of wages deductible by the employer and excluded from employee taxes, (2) employees who sell appreciated company stock to the ESOP may defer any taxes due until withdrawal of benefits, and (3) dividends paid to ESOP held stock are deductible by the employer.

Life Insurance Accelerated Death Benefit..... Estimate - \$100,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 101(g)

Amounts are excluded from income resulting from a life insurance contract on the life of an insured, terminally or chronically ill individual. Similarly, if a portion of a life insurance contract is assigned or sold to a viatical settlement provider, amounts received are excluded from income.

Life Insurance and Annuity Interest..... Estimate - \$72,000,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 72 & 101

Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contract held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax deferred, if not tax exempt. Investment income earned on annuities is tax deferred without annual contribution or income limits applicable to other tax-favored retirement income plans.

Life Insurance Death Benefits..... Estimate - \$15,800,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 101(g)

Amounts received under a life insurance contract paid by reason of the death of the insured are generally excluded from gross income. These amounts may be excluded whether they are return of premiums paid, increased value of the policy due to investment or a death benefit feature - the policy proceeds exceeding the value of the contract immediately prior to the death of the insured. It is immaterial whether the proceeds are received in a single sum or otherwise. However, if the proceeds are left with the insurer, any interest earned and paid is income to the recipient.

Livestock Involuntary Conversion..... Estimate – Minimal

Citation: Iowa Code 2005 422.5(8) and IRC 1033 and Reg §1.1033

The destruction of livestock by disease or the sale or exchange of livestock because of disease is treated as an involuntary conversion. Sales or exchanges of livestock (except poultry) solely on account of drought, flood, or other weather-related conditions that exceed the number normally sold may also be entitled to involuntary conversion treatment. Involuntary conversion allows for the exclusion from income from any gains due to the sale if the proceeds from the sale are reinvested in similar property. In the case of income derived from the sale or exchange of livestock which qualifies under section 451(e) of the Internal Revenue Code because of drought, the taxpayer may elect to include the income in the taxpayer's net income in the tax year following the year of the sale or exchange in accordance with rules prescribed by the director.

Percentage Depletion – Fuel Producers..... Estimate - \$200,000

Citation: Iowa Code 2005 422.3(5), 422.7(15) & 422.35(10) and IAC 701-41.2, 41.30 & 53.8(2) and IRC 57(a)1, 611, 612, 613 & 613A

Federal tax code allows fuel producers to recognize the expense of the consumption of depletable assets as a percentage of sales of those assets, in place of cost depletion. Cost depletion is recognizing, as an expense, the amount of asset consumed. A deduction for depletion expense is allowed in determining the taxable income from natural resources. The deduction allows recovery of the cost of an asset over its productive life. A depletable asset is of finite, but not necessarily known, size and whose processing results in revenues. Depletion is similar to depreciation in that it recognizes consumption of the asset during the specified period. Depreciation is recognition that the asset value is declining, such as wear on a machine. Depletion is the specific recognition that the asset itself is being physically consumed. Under percentage depletion, the deduction allowed is a percentage of the income, not the amount of asset consumed. Percentage depletion is subject to recapture.

Iowa tax statutes generally conform to the federal tax code. With regard to large oil, gas, or geothermal producers, Iowa requires that the excess of percentage depletion over cost depletion calculated under federal rules be added back in the calculation of Iowa net income. That is, Iowa conforms to IRC 613A for corporate income tax and IRC 613A(c) for individuals, but not IRC 611 or 613. IRC 613A, generally, allows percentage depletion for small oil, gas, or geothermal properties. IRC 263(c) allows large producers to expense development costs so that the asset developed is not subject to depletion (it has already been expensed) and large producers minimally utilize percentage depletion. The tax expenditure is the excess of percentage depletion over cost depletion. At the current time no fuel minerals are being mined in Iowa.

Percentage Depletion – Non-Fuel Minerals Estimate - \$1,200,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 611, 612, 613 & 613A

Producers of non-fuel minerals are eligible to recognize the expense of the consumption of depletable assets as a percentage of sales of those assets in place of cost depletion. Cost depletion is recognizing, as an expense, the amount of asset consumed. A deduction for depletion expense is allowed in determining the taxable income from natural resources. The deduction allows recovery of the cost of an asset over its productive life. A depletable asset is of finite, but not necessarily known, size and whose processing results in revenues. Depletable assets are usually naturally occurring deposits such as gypsum or calcium carbonate. Depletion is similar to depreciation in that it recognizes consumption of the asset during the specified period. Depreciation is recognition that the asset value is declining, such as wear on a machine. Depletion is the specific recognition that the asset itself is being physically consumed. A machine that is totally depreciated is a machine, albeit worn-out and worthless. A gravel pit that is totally depleted is a hole in the earth.

Under percentage depletion, the deduction allowed is a percentage of the income, not the amount of asset consumed. Such allowance shall not exceed 50 percent of the taxpayer's taxable income from the property (computed without allowances for depletion). The percentage depends on the type of business: from 22 percent for mining including sulfur and graphite, to 14 percent for metal mines, to five percent for such as sand, gravel, and clay used for drainage tile. Percentage depletion is subject to recapture. Percentage depletion is required to equal or exceed cost depletion. The tax expenditure is the excess of percentage depletion over cost depletion.

Tax Free Exchange of Contracts..... Estimate – Not Estimated

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1035

No gain or loss results from an exchange of (1) life insurance contracts, (2) a life insurance contract for an endowment or an annuity contract, (3) two annuity contracts, (4) an endowment insurance contract for an annuity contract or (5) two endowment insurance contracts if the new contract provides for regular payments beginning on a date not later than the date payments would have begun under the contract that was exchanged. Policyholders who surrender life insurance or annuity contracts of a financially troubled insurance company may qualify for non-recognition of gain if, within 60 days, all cash received is reinvested in another policy or contract issued by another insurance company or in a single custodial account.

Tax Free Like-Kind Exchanges Estimate - \$7,800,000

Citation: Iowa Code 2005 422.3(5) & 422.7 and IAC 701-41.2 and IRC 1031

No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like kind which is to be held either for productive use in a trade or business or for investment. This rule does not cover stock in trade or other property held primarily for sale, stocks, bonds, notes, certificates of trust, beneficial interests, partnership interests, securities, or evidences of indebtedness or interest. It does cover "trade-in" allowances. Property is of like kind if it is of the same nature or character. Most exchanges of real properties qualify as like-kind exchanges. Personal properties are like kind if they are of a like kind or class. Depreciable tangible personal properties are of a like class if they fall within the same general asset class for depreciation purposes.

Individual and Corporate Income Tax - Iowa Specific

Added Wage Deduction – All Businesses	\$7,100,000
Added Wage Deduction – Small Businesses	\$11,100,000
Assistive Device Tax Credit.....	Minimal
Cow-Calf Tax Credit.....	\$2,000,000
Economic Development Region Revolving Fund Tax Credit	Minimal
Endow Iowa Tax Credit.....	\$1,200,000
Enterprise Zone (EZ) Program – Housing Investment Tax Credit.....	Not Estimated
Enterprise Zone (EZ) Program – Investment Tax Credit.....	Not Estimated
Enterprise Zone (EZ) Program – Supplemental Research Activities Tax Credit	Not Estimated
Ethanol Blended Gasoline Tax Credit	\$3,900,000
Gains from Sale on Municipal Bonds	\$0
High Quality Job Creation Program (HQJCP) – Additional Research Activities Tax Credit.....	Minimal
High Quality Job Creation Program (HQJCP) – Investment Tax Credit	Minimal
Historic Preservation and Cultural and Entertainment District Tax Credit	\$2,400,000
Interest – Beginning Farmer Bonds.....	\$800,000
Interest – State Exempt.....	\$10,800,000
Iowa Industrial New Jobs (260E) Tax Credit	\$2,300,000
Minimum Tax Credit.....	\$3,300,000
Motor Vehicle Fuel Tax Credit.....	\$4,600,000
New Capital Investment Program (NCIP)	\$2,000,000
New Jobs and Income Program (NJIP) – Investment Tax Credit.....	Not Estimated
New Jobs and Income Program (NJIP) – Supplemental Research Activities Tax Credit.....	Not Estimated
Research Activities Tax Credit	\$22,600,000
Soy-Based Cutting Tool Oil Tax Credit.....	Minimal
Supplemental Research Activities Tax Credit.....	\$8,500,000
Venture Capital Tax Credit – Iowa Fund of Funds.....	\$0
Venture Capital Tax Credit – Qualified Business or Community-Based Seed Capital Fund	\$400,000
Venture Capital Tax Credit – Venture Capital Funds.....	\$200,000

Added Wage Deduction – All Businesses Estimate - \$7,100,000

Citation: Iowa Code 2005 422.7(12A) & 422.35(6A) and IAC 701-40.21 & 53.11(7)

A business is allowed an additional deduction from income equal to sixty-five percent of the wages, up to \$20,000 per individual, paid to qualified individuals who are hired for the first time by the taxpayer during the tax year paid for work done in Iowa during the first twelve months of employment. Qualified individuals are: (a) an individual who at the time of hiring is domiciled in Iowa and (1) has been convicted of a felony in any state or the District of Columbia, (2) is on parole from the Iowa department of corrections facilities (3) is on probation designated by an Iowa court or (4) is in a work release program or (b) an individual, whether or not domiciled in Iowa at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact applies.

Added Wage Deduction – Small Businesses Estimate - \$11,100,000

Citation: Iowa Code 2005 422.7(12) & 422.35(6) and IAC 701-40.21, 53.11 & 59.8

If a business is a small business, an additional deduction from income is allowed equal to sixty-five percent of the wages, up to \$20,000 per individual, paid to qualified individuals who are hired for the first time by the taxpayer during the tax year paid for work done in Iowa during the first twelve months of employment. Qualified individuals are: (a) qualifying individuals with disabilities domiciled in Iowa at the time of the hiring, (b) an individual who at the time of hiring is domiciled in Iowa and (1) has been convicted of a felony in any state or the District of Columbia, (2) is on parole from the Iowa department of corrections facilities (3) is on probation designated by an Iowa court or (4) is in a work release program or (c) an individual, whether or not domiciled in Iowa at the time of the hiring, who is on parole or probation and to whom the interstate probation and parole compact applies.

Small business is defined by Section 16.1(36) Code of Iowa. A small business is a) not a subsidiary of a larger business; b) has less than 21 employees or less than \$3 million in gross revenues; c) is not a farm; and d) is not a profession.

Credits for qualified individuals in category (b) or (c), above – felons, parolees, or probationaries – are estimated as part of Added Wage Deduction – All Businesses.

Assistive Device Tax Credit Estimate – Minimal

Citation: Iowa Code 2005 422.11E & 422.33(9) and IAC 261-66, 701-42.14 & 52.17

A taxpayer who is a small business that purchases, rents or modifies an assistive device or makes workplace modifications for an individual with a disability who is employed or will be employed by the small business is eligible for this credit. The credit is limited to 50 percent of the first \$5,000 paid for the assistive device or workplace modification. In order to be eligible to receive the assistive device tax credit, a small business must be located in the State of Iowa and employ no more than 14 full-time employees or have gross receipts of no more than \$3 million during its preceding tax year. Application must be made to the Department of Economic Development. Total credits approved for one year can not exceed \$500,000.

Cow-Calf Tax Credit..... Estimate - \$2,000,000

Citation: Iowa Code 2005 422.120 and IAC 701-43.8 & 52.13

Effective for tax years beginning on or after January 1, 1996, eligible individual and corporate income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. The amount of credit is limited to \$3,000 per taxpayer. The amount of the credit is determined by adding together for each head of livestock in the taxpayer's operation the product of 10 cents for each corn equivalent (111.5 in the case of cow-calf operations, or \$11.15 total per head) deemed to have been consumed by that animal in the taxpayer's operation in the tax year. Only taxpayers with net worth less than \$1 million, more than one-half of gross income from farming or ranching activities, and federal taxable income of \$113,600 or less in 2005 were eligible for the credit.

Economic Development Region Revolving Fund Tax Credit..... Estimate – Minimal

Citation: Iowa Code 2005 15E.232, 422.11K & 422.33 (17) and IAC 261-32, 701-42.28 & 52.29

A tax credit equal to 20 percent of the contribution made to an economic development region revolving fund is allowed. The economic development region must be approved by the Department of Economic Development (DED), and DED is responsible for administering and authorizing these tax credits.

Endow Iowa Tax Credit..... Estimate - \$1,000,000

Citation: Iowa Code 2005 15E.305, 422.11H & 422.33(14) and IAC 261-47, 701-42.20 & 52.23

A tax credit equal to 20 percent of taxpayer's endowment gift (up to \$100,000 for a single taxpayer) to a qualified community foundation is available. The gift must be for a permanent endowment fund established to benefit a charitable cause in Iowa. The amount of Endow Iowa Tax Credits authorized in a calendar year by the Department of Economic Development cannot exceed \$2 million. This tax credit can also be claimed against franchise tax, insurance premiums tax, and moneys and credits tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against. These contributions also qualify as an itemized deduction for charitable contributions.

Enterprise Zone (EZ) Program –

Housing Investment Tax Credit..... Estimate – Not Estimated

Citation: Iowa Code 2005 15E.193B and IAC 261-59.8, 701-42.13 & 52.15

A corporation or individual that qualifies as an eligible housing business may receive a tax credit of up to 10% of the new investment which is directly related to the building or rehabilitating of homes in an enterprise zone. The tax credit may be taken on the tax return for the tax year in which the home is ready for occupancy. New investment does not include machinery, equipment, hand or power tools necessary to build or rehabilitate homes. Any credit in excess of the tax liability, less credits, may be carried forward for seven years or until used. An eligible housing business is one that builds or rehabilitates a minimum of four single-family homes with a value, after completion, not exceeding \$120,000 within an enterprise zone or one multiple dwelling unit containing three or more individual dwelling units with a value per unit not to exceed \$120,000 within an enterprise zone.

Enterprise Zone (EZ) Program – Investment Tax Credit..... Estimate – Not Estimated
Citation: Iowa Code 2005 15E.196 & 15.333 and IAC 261-59 & 701-52.14(2)

Businesses locating or expanding in an Enterprise Zone are eligible to receive an investment tax credit up to a maximum of 10% of the new investment in machinery and equipment, land, buildings, and improvements to existing buildings. This tax credit may be carried forward for up to seven years or until depleted. For Enterprise Zone projects approved on or after July 1, 2005, the investment tax credit must be amortized over a five year period.

Enterprise Zone (EZ) Program – Supplemental Research Activities Tax Credit..... Estimate – Not Estimated
Citation: Iowa Code 2005 15E.196 & 15.335 and IAC 261-59 & 701-52.14(3)

Businesses locating or expanding in an Enterprise Zone are eligible to double the State's Research Activities Tax Credit for up to ten years while the business is participating in the program.

Ethanol Blended Gasoline Tax Credit Estimate - \$3,900,000
Citation: Iowa Code 2005 422.11C & 422.33(11) and IAC 701-42.16 & 52.19

An income tax credit is available to retail stations at which more than 60% of the total gasoline sold is ethanol blended gasoline, including any gallons blended with at least ten percent ethanol. The credit equals two and a half cents (\$0.025) for each gallon of ethanol blended gasoline sold in excess of 60 percent of total station gasoline sales. In the case of companies with more than one retail location, the credit requirements apply separately to each retail motor fuel site. A retailer can claim the ethanol blended gasoline tax credit even if the dealer claims an E85 gasoline promotion tax credit for the same tax year for the same ethanol gallons sold. The credit can be claimed against the corporate income tax or the individual income tax by completing the IA 6478. The credit is repealed on January 1, 2009. A retailer whose tax year ends prior to December 31, 2008 can continue to claim the credit in the following year for any ethanol blended gasoline sold through December 31, 2008.

Gains from Sale of Municipal Bonds Estimate - \$0
Citation: Iowa Code 2005 422.7(36) & 422.35 and IAC 701-40.56 & 53.6

Income from the sale of obligations of the State of Iowa and its political subdivisions shall be added to Iowa net income to the extent not already included. Gains or losses from the sale or other disposition of bonds issued by the state of Iowa or its political subdivisions shall be included in Iowa net income unless the law authorizing these obligations specifically exempts the income from the sale or other disposition of the bonds from the Iowa individual income tax.

**High Quality Job Creation Program (HQQCP) –
Additional Research Activities Tax Credit..... Estimate – Minimal**
Citation: Iowa Code 2005 15.335 and IAC 261-68.4(6)

The High Quality Job Creation Program replaces the New Jobs and Income Program (NJIP) and the New Capital Investment Programs (NCIP). The amount of tax incentives awarded is dependent on the number of jobs created and the qualifying investment made. Actual award amounts will be based on the business's level of need; the quality of the jobs; the percentage of created jobs defined as high-quality; and the economic impact of the project. The new jobs must have a starting wage including certain benefits which is at least 130 percent of the average county wage to be eligible for these tax credits.

One of the tax incentives a business participating in HQJCP may receive is an additional research activities tax credit, which doubles the amount of the regular research activities tax credit.

High Quality Job Creation Program (HQQCP) – Investment Tax Credit .. Estimate – Minimal
Citation: Iowa Code 2005 15.333 and IAC 261-68.4(4)

The High Quality Job Creation Program replaces the New Jobs and Income Program (NJIP) and the New Capital Investment Programs (NCIP). The amount of tax incentives awarded is dependent on the number of jobs created and the qualifying investment made. Actual award amounts will be based on the business's level of need; the quality of the jobs; the percentage of created jobs defined as high-quality; and the economic impact of the project. The new jobs must have a starting wage including certain benefits which is at least 130 percent of the average county wage to be eligible for these tax credits.

One of the tax incentives a business participating in HQJCP may receive is an investment tax credit. This tax credit can also be claimed against franchise tax and insurance premiums tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

**Historic Preservation and Cultural and
Entertainment District Tax Credit Estimate - \$2,400,000**
Citation: Iowa Code 2005 404A, 422.11D & 422.33(10) and IAC 223-48, 701-42.15 & 52.18

A tax credit is available for 25 percent of qualified rehabilitation costs made to eligible historic property in the State of Iowa. Eligible property includes: property listed on or eligible to be on the national register of historic places, property designated as of historic significance to a district listed on or eligible to be on the national register of historic places, property or district designated a local landmark by a city or county ordinance, or a barn constructed prior to 1937. Any credit in excess of tax liability may be refunded at a discounted rate. For commercial property, rehabilitation costs must equal at least 50 percent of the value of the property prior to the rehabilitation. For residential property or barns, rehabilitation costs must equal at least the lesser of \$25,000 or 25 percent of the property's market value prior to the rehabilitation. No more than \$2,400,000 can be approved for these credits per fiscal year. This tax credit can also be claimed against franchise tax and insurance premiums tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

Interest – Beginning Farmer Bonds..... Estimate - \$800,000

Citation: Iowa Code 2005 175.17 & 422.7(19) and IAC 701-40.36 & 53.6

Interest from bonds or notes issued by the agricultural development authority to finance the beginning farmer loan program is exempt from the state individual and corporate income taxes. Also, the bonds can not be taxed for estate or inheritance tax purposes.

Interest – State Exempt Estimate - \$10,800,000

Citation: Iowa Code 2005 422.7(2) & 422.35 and IAC 701-40.3 & 53.6

Interest on a selected list of bonds and notes issued by various state and local government entities are specifically exempt from income taxes, including:

- Aviation Authority Bonds
- Community College Bond Program Bonds
- Community College Residence Halls and Dormitories Bonds
- County Health Center Bonds
- E911 Emergency Telephone Service Program Bonds
- Honey Creek Premier Destination Park Tax-Exempt Bonds
- Interstate Bridges Bonds
- Iowa Board of Regents Bonds for buildings and facilities
- Iowa College Super Savings Plans Bonds (repealed in 2005 Acts)
- Iowa Higher Education Loan Authority
- Iowa Municipality Urban Renewal Bonds
- Iowa Rural Water District Revenue Bonds
- Iowa Utilities Board and Consumer Advocate Building Bonds
- Local Government Flood Damage Program
- Low Income Housing Bonds
- Municipal Investment Recovery Program Bonds
- Prison Infrastructure Revenue Bonds
- Quad Cities Interstate Metropolitan Authority Bonds
- Regents Institutions Medical and Hospital Buildings at University of Iowa Bonds
- Sewage Treatment Works Revenue Bonds
- Soil Conservation District Bonds
- Underground Storage Tank Fund Revenue Bonds
- Vision Iowa Program
- Warehouse Project Revenue Bonds

Iowa Industrial New Jobs (260E) Tax Credit..... Estimate - \$2,300,000

Citation: Iowa Code 2005 260E, 15A.7, 15A.8, 422.11A, 422.16A & 422.33 (6) and IAC 261-5, 701-42.2(7) & 52.8

A tax credit is available to an individual or corporation who has entered into an agreement under Iowa Code chapter 260E and has increased employment by at least 10 percent. The credit is 6% of the taxable wages paid to employees in new jobs or jobs directly related to new jobs for the taxable year in which the taxpayer elects to take the credit. The taxpayer may elect to take the credit in any tax year which either begins or ends during the period beginning with the date of the agreement and ending with the date by which the project is to be completed under the agreement. However, the taxpayer may not take the credit until the base employment level has been exceeded by at least 10%. Any Iowa new jobs credit in excess of the individual's or corporation's tax liability less the credits authorized in Iowa Code sections 422.12 and 422.12B may be carried forward for ten years or until it is used, whichever is the earlier.

Minimum Tax Credit..... Estimate - \$3,300,000

Citation: Iowa Code 2005 422.11B and IAC 701-42.8

A credit is allowed against regular income tax liability for at least a portion of alternative minimum tax paid in a prior year. Only the portion of the minimum tax which is attributable to those adjustments and tax preferences which are "deferral items" may be used to determine the credit. The portion of the minimum tax which is attributable to the "exclusion" item for appreciated charitable deductions does not qualify for the minimum tax credit. This is the only "exclusion" item allowed for state purposes although there is several of that kind used to determine the federal minimum tax. The minimum tax credit may only be used against regular income tax for a tax year to the extent that the regular tax is greater than the tentative minimum tax for the tax year. Any remaining credit may be carried forward.

Motor Vehicle Fuel Tax Credit..... Estimate - \$4,600,000

Citation: Iowa Code 2005 422.110 & 422.111 and IAC 701-42.6 & 52.6

An income tax credit is allowed for the amount of Iowa motor fuel tax paid relating to purchases for off-road use made by individuals and corporations. This credit is allowed for taxpayers who do not have a motor fuel refund permit. This estimate does not include the motor vehicle fuel tax refunds that were issued to those taxpayers who do have refund permits.

New Capital Investment Program Estimate - \$2,000,000

Citation: Iowa Code 2005 15.381 through 15.387 and IAC 261-64, 701-42.19 & 52.22

The New Capital Investment Program provides a package of tax credits and exemptions to businesses making a capital investment of at least \$1,000,000. Any awards made before July 1, 2005, will be honored until the NCIP contract expires. In order to be eligible for NCIP benefits, a company must meet several requirements. The investment tax credit varies between 1 percent and 5 percent, based on the number of new high-quality jobs. To qualify as a high-quality job, new jobs must pay a starting wage of at least the average county wage (see appendix for recent county and regional wages). The company must also provide and pay at least 80 percent of the costs of a standard employee medical insurance plan for all full-time employees. The company must not close or significantly reduce operations elsewhere in Iowa in order to relocate the operation to the proposed community. Retail establishments are prohibited.

This tax credit can also be claimed against franchise tax and insurance premiums tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

New Jobs and Income Program (NJIP) – Investment Tax Credit.. Estimate – Not Estimated

Citation: Iowa Code 2005 15.326 through 15.337 and IAC 261-58.4(3)(a)

An eligible business may claim an investment tax credit as provided in Iowa Code (2003) section 15.333. A corporate income tax credit may be claimed up to a maximum of 10% of the new investment which is directly related to new jobs created by the location or expansion of the business. Any credit in excess of tax liability for the tax year may be credited to the tax liability for the following seven years or until depleted, whichever occurs first. Subject to prior approval by the Department of Economic Development, in consultation with the Department of Revenue, an eligible business whose project primarily involves the production of value-added agricultural products may elect to apply for a refund for all or a portion of an unused tax credit.

New Jobs and Income Program (NJIP) –

Supplemental Research Activities Tax Credit..... Estimate – Not Estimated

Citation: Iowa Code 2005 15.326 through 15.337 and IAC 261-58.4(5)

An eligible business participating in the New Jobs and Income Program (NJIP) is allowed to double the State's Research Activities Tax Credit while the business is participating in the program.

Research Activities Tax Credit..... Estimate - \$22,600,000

Citation: Iowa Code 2005 422.10 & 422.33(5) and IAC 701-42.2(6) & 52.7

A refundable tax credit equal to six and one-half percent of the Iowa apportioned share of the qualifying expenditures for increasing research activities is allowed against individual and corporate income taxes due. Qualifying expenditures are those allowable under section 41 of the Internal Revenue Code in effect on January 1, 1999. An alternative method of calculating the credit may be elected consistent with the alternative incremental credit described in section 41(c)(4)(A) of the Internal Revenue Code. The percentages applied are 1.65%, 2.20% and 2.75%. Either method may be elected in any year.

Soy-Based Cutting Tool Oil Tax Credit..... Estimate – Minimal

Citation: Iowa Code 2005 422.11I & 422.33(19) and IAC 701-42.21 & 52.24

A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. The costs must be incurred after June 30, 2005, and before January 1, 2007, and the costs must be incurred during the first twelve months of transition. This affects tax years ending after June 30, 2005, and beginning before January 1, 2007. The costs cannot exceed \$2 dollars per gallon, and the number of gallons eligible for the credit cannot exceed 2,000 gallons.

Supplemental Research Activities Tax Credit..... Estimate - \$8,500,000

Citation: Iowa Code 2005 15.335, 15A.9(8), 15E.196(4) and IAC 261-58.4(5), 59.6(3)(d), 64.4(2), 68.4(6), 701-42.2(11), 42.19(1), 42.27(1), 52.7, 52.10(3), 52.14(3) & 52.22(1)

For eligible businesses within an economic development area, an additional refundable credit equal to up to one hundred percent of the credit allowed under Iowa Code 2005 422.10 and 422.33(5) for the Iowa apportioned share of qualifying expenditures for increasing research activities is allowed against individual and corporate income tax due for the first ten years after the application is approved by the Department of Economic Development. The credit is in addition to the credit allowed under Iowa Code 2005 422.10 and 422.33(5). Either the regular or alternative calculation of the credit can be used in any year.

Venture Capital Tax Credit – Iowa Fund of Funds Estimate - \$0
Citation: Iowa Code 2005 15E.61 through 15E.69, 422.11Q & 422.33 (21) and IAC 123-4, 701-42.18(3) & 52.21(3)

A contingent tax credit is allowed for investments made into the Iowa fund of funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. The Iowa fund of funds will make investments in venture capital funds who make a commitment to consider investments in businesses located in Iowa. Credits are awarded only when investors present mature investment certificates and the board certifies that the return is lower than the guaranteed rate of return. Then, the board will issue a tax credit certificate for the difference between the actual rate of return and the guaranteed rate of return. This tax credit can also be claimed against franchise tax, insurance premiums tax, and moneys and credits tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

No awards were made for this tax credit that could be claimed in 2005.

**Venture Capital Tax Credit – Qualified Business or
Community-Based Seed Capital Fund..... Estimate – \$400,000**
Citation: Iowa Code 2005 15E.41 through 15E.46, 422.11F & 422.33(12) and IAC 123-2, 701-42.18(1) & 52.21(1)

A tax credit is allowed for 20 percent of the equity investment made into a qualifying business or community-based seed capital fund approved by the Iowa Capital Investment Board. This credit is focused on “angel investors” who make investments in start-up companies. Investors must apply to the Iowa Capital Investment Board within 120 days of the initial investment. This tax credit can also be claimed against franchise tax, insurance premiums tax, and moneys and credits tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

Venture Capital Tax Credit – Venture Capital Funds Estimate – \$200,000
Citation: Iowa Code 2005 15E.51, 422.11G & 422.33(13) and IAC 123-3, 701-42.18(2) & 52.21(2)

A tax credit is allowed for 20 percent of the equity investment made into a qualifying business or community-based seed capital fund approved by the Iowa Capital Investment Board. This credit is focused on “angel investors” who make investments in start-up companies. Investors must apply to the Iowa Capital Investment Board within 120 days of the initial investment. This tax credit can also be claimed against franchise tax, insurance premiums tax, and moneys and credits tax. This estimate includes claims against those tax types, because sufficient data is not available to provide a breakout of which tax the credit was claimed against.

Sales and Use Tax

Admissions at Primary or Secondary Schools	\$500,000
Advertising Envelopes.....	\$300,000
Advertising Materials Out-of-State.....	\$700,000
Agricultural Chemicals	\$26,100,000
Agricultural Drainage Tile	\$4,700,000
Agricultural Feed	\$104,500,000
Agricultural Feed for Farm Deer or Bison	Minimal
Agricultural Packaging	Minimal
Aircraft Repair and Replacement Parts	\$1,900,000
ATM Surcharges	\$500,000
Automotive Fluids to a Retailer	\$400,000
Breeding Stock.....	\$4,600,000
Building Materials for Out-of-State Use	Not Estimated
Casual Sale – Business Liquidation	Not Estimated
Casual Sale – Not Business Liquidation.....	\$2,600,000
Clothing Sales Tax Holiday	\$2,700,000
Commercial Amusement Enterprises	\$3,600,000
Commercial Fertilizer and Lime.....	\$43,700,000
Commercial Watercraft Special Fuel	Not Estimated
Community Action Agency	Not Estimated
Construction Contracts with Tax Exempt Entities	\$47,900,000
Construction Equipment.....	\$10,100,000
Cultural Affairs Sales.....	Minimal
Digital Goods	\$2,200,000
Domesticated Fowl	\$7,000,000
Draft Horses.....	Minimal
E911 Service Surcharge	\$600,000
Electricity to Private Water Companies	\$1,500,000
Employment Placement Out-of-State	Not Estimated
Enterprise Zone Program (EZ) Sales Tax Refund	\$1,200,000
Excavation Notification Center Services.....	Minimal
Farm Machinery – Self-Propelled	\$55,500,000
Farm Machinery – Special Purpose	\$8,700,000

Fees for Games and Amusements.....	Not Estimated
Food Manufacturer's Tangible Personal Property Rental	Not Estimated
Food Sales by Promoter of Iowa Products	Not Estimated
Food Sales for Human Consumption	\$320,000,000
Food Sales Purchased with Food Stamps.....	\$11,600,000
Fuel for Implements of Husbandry	\$19,200,000
Fuel to Heat/Cool Greenhouses.....	\$100,000
Fuel to Heat/Cool Livestock Buildings	\$5,600,000
Fuel Used in Aquaculture.....	Minimal
Fuel Used in Grain Drying.....	\$7,400,000
Gambling Boat Games and Admissions.....	\$207,300,000
Goods for Clothing Maintenance and Repair.....	\$600,000
Grain Dryers	\$700,000
Habitat for Humanity Type Organizations.....	Minimal
High Quality Job Creation Program (HQJCP) Sales Tax Refund	\$0
Industrial Machinery, Equipment and Computers	\$111,300,000
Inert Gases	\$3,200,000
Information Services	\$8,400,000
Interstate Sales	\$335,700,000
Irrigation Equipment for Farming.....	\$200,000
Laboratory Tests on Animals.....	\$2,800,000
Laboratory Tests on Humans.....	\$75,800,000
Legislative Services Agency.....	Minimal
Livestock Ear Tags	Minimal
Livestock or Fowl Bedding	Minimal
Long-Term Room Rental.....	Not Estimated
Lottery Tickets.....	\$13,800,000
Massage Therapy	\$2,700,000
Modular Home Exemption.....	\$1,800,000
New Capital Investment Program (NCIP) Sales Tax Refund	\$300,000
New Jobs and Income Program (NJIP) Sales Tax Refund	\$400,000
Newspapers.....	\$3,400,000
Nonprofit Disabled Service Providers.....	Not Estimated
Nonprofit Health Centers.....	Not Estimated

Nonprofit Health Services Computers	Not Estimated
Nonprofit Hospice Facilities.....	\$4,200,000
Nonprofit Hospitals.....	\$108,360,000
Nonprofit Legal Aid Organizations.....	Not Estimated
Nonprofit Lending Organizations.....	Not Estimated
Nonprofit Organ Procurement Organization	Minimal
Nonprofit Private Art Center	Not Estimated
Nonprofit Private Educational Institutions	\$9,800,000
Nonprofit Private Museums.....	Not Estimated
On-Line Computer Service.....	\$29,900,000
Optional Residential Warranty Contracts.....	\$200,000
Packaging Containers	\$62,500,000
Prescription Drugs and Medical Devices	\$80,300,000
Printers' and Publishers' Supplies.....	\$3,200,000
Prizes for Gambling.....	Not Estimated
Processing Chemicals.....	\$24,600,000
Processing Photography	\$2,100,000
Processing Power and Fuel	\$85,500,000
Processing Services.....	Not Estimated
Processing Services for Food Products.....	\$20,200,000
Processing Tire Retreading.....	\$400,000
Racetrack Pilot Program	\$400,000
Raffle Ticket Sales at Fairs	\$300,000
Railroad Rolling Stock.....	Minimal
Reciprocal Shipment of Wine	Minimal
Reciprocal Utility Exemption.....	Minimal
Reconditioning Services.....	Not Estimated
Recycling and Waste Reprocessing Equipment.....	Not Estimated
Relief Agency Refunds.....	Minimal
Rental or Broadcast of Entertainment Media	\$8,900,000
Residential Utility Exemption.....	\$89,400,000
Sale of Tangible Personal Property for Resale.....	Not Estimated
Sales by a City or County.....	Not Estimated
Sales by State, County or District Fairs.....	Not Estimated

Sales for Educational, Religious or Charitable Activities.....	Not Estimated
Sand Handling and Core & Mold Making Equipment.....	\$1,000,000
Services Performed on a Vessel	Not Estimated
Software Maintenance or Support Contract.....	\$100,000
Tax Levying or Certifying Bodies in Iowa.....	\$74,600,000
Toys for Tots Type Organizations	\$160,000
Trade-In for Remanufacture or Resale	\$107,900,000
Transportation Services – All Air Charters.....	\$4,100,000
Transportation Services – General.....	\$229,800,000
Transportation Services – Long-Term Rent.....	Not Estimated
Water Sold to Farmers	\$400,000

Admissions at Primary or Secondary Schools Estimate - \$500,000
Citation: Iowa Code 2005 423.2(3) and IAC 701-16.26(2)

Admissions to amusements, fairs and athletic events of elementary and secondary educational institutions are exempt from sales tax.

Advertising Envelopes Estimate - \$300,000
Citation: Iowa Code 2005 423.3(55) and IAC 701-18.41

Sales of envelopes which are used to contain advertising are exempt from sales tax. Envelopes which are not primarily used for advertising are taxable. The primary use of the envelopes controls whether they are taxable or exempt.

Advertising Materials Out-of-State Estimate - \$700,000
Citation: Iowa Code 2005 423.3(42) and IAC 701-18.54

Sales of advertising material to any person in Iowa if that person, or any agent of that person, will, after the sale, send that advertising material outside of Iowa and the subsequent sole use of that material will be outside the state are exempt from sales tax. "Advertising material" is tangible personal property only, including paper. It is limited to: brochures, catalogs, leaflets, fliers, order forms, return envelopes, floppy discs, CD-ROMs, videotapes, and any similar items of tangible personal property which will be used to promote sales of property or services. The exemption also applies to the use tax for advertisement and promotional material and matter, seed catalogs, envelopes for same and other similar material temporarily stored in the state which are acquired outside of Iowa and which, subsequent to being brought into Iowa are sent outside of the state.

Agricultural Chemicals Estimate - \$26,100,000

Citation: Iowa Code 2005 423.3(5) and IAC 701-17.9(3)

This estimate includes:

- An undetermined portion of Adjuvants and Surfactants

Sales of herbicides, pesticides, insecticides which are to be used in disease, weed, or insect control or health promotion of plants or livestock produced as part of agricultural production for market are exempt from sales tax. All forms of inoculation, whether for promotion of better growth and healthier plants or for prevention or cure of mildew of plants or disease of seeds and bulbs, are intended for the same general purpose. Sales tax shall not be imposed on any material used for inoculation.

Agricultural Drainage Tile..... Estimate - \$7,400,000

Citation: Iowa Code 2005 423.3(5) and IAC 701-17.9(3) & 18.35

The sale or installation of drainage tile which is to be used in disease control, weed control, or the health promotion of plants or livestock produced as part of agricultural production for market is exempt from sales tax. The materials used to install the drainage tile are also exempt. Included among these materials are: tile intakes, outlet pipes and guards, aluminum and gabion structures, erosion control fabric, water control structures and miscellaneous tile fittings.

Agricultural Feed Estimate - \$104,500,000

Citation: Iowa Code 2005 423.3(5) and IAC 701-17.9(3) & 18.14

Sales tax does not apply to the sale of feed for any form of animal life when the product of the animals constitutes food for human consumption. Sales tax shall apply on feed sold for consumption by pets. Sales of food used in disease, insect control or health promotion of livestock produced as part of agricultural production for market are exempt from sales tax. "Food" includes vitamins, minerals, other nutritional food supplements, and hormones sold to promote the growth of livestock. This estimate does not include feed expenses for farm deer and bison.

Agricultural Feed for Farm Deer or Bison Estimate – Minimal

Citation: Iowa Code 2005 423.3(16) and IAC 701-17.9(9)

Sales tax does not apply to the sale of feed or feed supplements and additives when used for consumption by farm deer or bison.

Agricultural Packaging Estimate – Minimal

Citation: Iowa Code 2005 423.3(15) and IAC 701-18.48(4) & 18.57(6)

Gross receipts from the sale of an item that is a container, label, carton, pallet, packing case, wrapping, baling wire, twine, bag, bottle, shipping case, or other similar article or receptacle sold for use in agricultural, livestock or dairy production are exempt from sales tax. The exemption also applies to the producers of ornamental, flowering, or vegetable plants in commercial greenhouses or other places which sell such items in the ordinary course of business.

Aircraft Repair and Replacement Parts..... Estimate - \$1,900,000
Citation: Iowa Code 2005 423.3(75) & 423.3(76) and IAC 701-18.49(2) & (3)

Sales or rental of tangible personal property permanently affixed to certain aircraft as a component part of that aircraft or for rendering, furnishing or performing of services in connection with the repair, remodeling or maintenance of certain aircraft (including aircraft engines and component materials or parts) are exempt from sales tax. "Aircraft" is any contrivance known which is designed for navigation of or flight in the air and is used in a scheduled interstate Federal Aviation Administration certified air carrier operation or is used in a nonscheduled interstate Federal Aviation Administration certified air carrier operation conducted under 14 CFR ch. 1, pt 135.

ATM Surcharges Estimate - \$500,000
Citation: Iowa Code 2005 423.3(83) and IAC 701-26.8(4)(p)

Fees charged by financial institutions to a non-customer that are imposed for point of sale, service charge, or access to an automated teller machine are exempt from sales tax. Financial institutions are defined as any bank, savings and loan association or credit union incorporated under the provisions of any state or federal law or any corporation licensed as an industrial loan company under chapter 536A, as well as any affiliate of a bank, savings and loan association, credit union, or industrial loan company.

Automotive Fluids to a Retailer..... Estimate - \$400,000
Citation: Iowa Code 2005 423.3(40) and IAC 701-18.46

Sales of certain automotive fluids are exempt from sales tax if (1) the sale is to a retailer who will install the automotive fluid in or apply the automotive fluid to a motor vehicle and (2) the installation or application is done while the retailer is providing a taxable enumerated service such as automotive lubrication or (3) the automotive fluid is installed in or applied to a motor vehicle which the retailer intends to sell and the sale of which will be subject to Iowa use tax. Examples of automotive fluids include: motor oil and other automobile lubricants, hydraulic, brake, and transmission fluids, sealants, undercoatings, antifreeze and gasoline additives.

Breeding Stock..... Estimate - \$4,600,000
Citation: Iowa Code 2005 423.3(3) and IAC 701-17.9(1)

Sales of agricultural breeding livestock are exempt from sales tax. "Livestock" means domestic animals which are raised on a farm as a source of food or clothing. The term includes cattle, sheep, hogs and goats, ostriches, rheas, emus, fish and other aquaculture animals. It does not include horses, mules, and draft animals, mink and other nondomesticated animals even if raised in captivity for food or clothing, any animal raised for racing, cats, dogs, and other pets. The sale of agricultural livestock is exempt from sales tax only if the purchaser intends to use the livestock primarily for breeding at the time of purchase.

Building Materials for Out-of-State Use..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.2(1) (b) and IAC 701-19.5(1), 32.8 & 219.5

Withdrawal of tangible personal property from inventory of a retailer who is a builder, contractor, subcontractor or owner of building materials, supplies, or equipment used in the performance of construction contracts outside Iowa is not a sale of tangible personal property and is not a taxable event. The use of tangible personal property such as building materials, supplies, or equipment by a manufacturer in the performance by the manufacturer or its subcontractor of construction outside of Iowa is not a taxable event.

Casual Sale – Business Liquidation Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(39) (b) and IAC 701-18.28(2)

When retailers sell all or substantially all of the tangible personal property held or used in the course of the trade or business for which retailers are required to hold a sales tax permit, the casual sale exemption from taxation applies when (1) the trade or business is transferred to another person and (2) the transferee engages in a similar trade or business. The trade or business transferred refers to the place where the business is located since each retail business collecting tax must have a separate permit for each location.

Casual Sale – Not Business Liquidation Estimate - \$2,600,000

Citation: Iowa Code 2005 423.3(39) (a) and IAC 701-18.28(1) & 18.28(3)

Sales, otherwise taxable, that are on a casual basis are generally exempt from tax. In order to be "casual" (1) the sale of tangible personal property or taxable services must be of a nonrecurring nature and (2) the seller, at the time of the sale must not be engaged, for profit, in the business of selling tangible goods or services taxable under Iowa Code 423.2. If the sales are recurring, the sales may qualify as a casual sale if all of the following criteria apply: 1) the owner of the business is the only person performing the services 2) the owner of the business is a full-time student and 3) total gross receipts from the furnishing or sales of the services do not exceed \$5,000 for the calendar year. Casual sales of vehicles subject to registration, vehicles subject only to the issuance of a certificate of title, and aircraft are not exempt. Sales of capital assets, such as equipment, machinery and furnishings which are not sold out of inventory are casual sales as long as they are not recurring (more than twice in 12 months).

Clothing Sales Tax Holiday Estimate - \$2,700,000

Citation: Iowa Code 2005 423.3(68) and IAC 701-20.12

Purchases of items of clothing or footwear designed to be worn on or about the human body are exempt from sales and use tax if (1) the sale price of an item is less than one hundred dollars and (2) the sale of the item takes place during the period beginning at 12:01 a.m. on the first Friday in August and ending at midnight on the following Saturday. Sales of "accessories" such as jewelry, handbags, and similar items and of special clothing or footwear primarily designed for athletic activity or protective use and not normally worn except when used for the athletic activity or protective use for which it is designed are excluded from the exemption. Rentals of clothing and footwear are also excluded from the exemption.

Commercial Amusement Enterprises..... Estimate - \$3,600,000

Citation: IAC 701-16.30

Sales by commercial amusement enterprises which contract to furnish a show for a fixed fee are exempt from sales tax. For example, the fee charged by a performer to a venue is not taxable, but any admissions to see the performance are taxable.

Commercial Fertilizer and Lime Estimate - \$43,700,000

Citation: Iowa Code 2005 423.3(4) and IAC 701-17.4, 17.9(3) & 18.57(1)

This estimate includes:

- An undetermined portion of Adjuvants and Surfactants

Commercial fertilizer and agricultural limestone sales are exempt from the sales tax only if the purchaser will utilize the fertilizer or limestone for the health promotion of plants which are produced as part of agricultural production for market. Plant hormones are considered to be commercial fertilizer. Agricultural production includes the production of flowering, ornamental, or vegetable plants in commercial greenhouses or otherwise and production from aquaculture.

Commercial Watercraft Special Fuel Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(72) and IAC 701-18.37

The sale of special fuel for diesel engines used in commercial watercraft on rivers bordering Iowa is exempt from sales tax, even if no fuel tax has been imposed and paid, providing the seller delivers the fuel to the owner's watercraft while it is afloat.

Community Action Agency Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(79) and IAC 701-17.40

The gross receipts from sales of tangible personal property and enumerated services performed for, furnished or rendered to a community action agency and used for the purposes of a community action agency, as defined in Iowa Code section 216A.93, are exempt from sales tax.

Construction Contracts with Tax Exempt Entities..... Estimate - \$47,900,000

Citation: Iowa Code 2005 423.3(80) and IAC 701- 17.33 & 19.12

This estimate includes:

- Construction Contracts with Nonprofit Rural Water Districts
- Department of Transportation Refunds

Designated tax-exempt entities awarding construction contracts on or after January 1, 2003 may issue special exemption certificates exempting contractors and subcontractors from paying sales and use tax for materials used in the construction project. This exemption is taken at the point of sale where the materials are purchased. Prior to January 1, 2003 designated tax exempt entities would file for a refund with the Department of Revenue for sales and use taxes paid on purchases of material used in the construction project. Both options are still available. Tax exempt entities include: private nonprofit educational institutions in Iowa, nonprofit private museums in Iowa, tax-certifying or tax-levying bodies or governmental subdivisions of the State of Iowa, municipally owned solid waste facilities which sell all or part of their processed waste as fuel to a municipally-owned public utility, all divisions, boards, commissions, agencies, or instrumentalities of federal, state, county, or municipal government which do not have earnings going to the benefit of an equity investor or stockholder, Habitat for Humanity, and rural water districts organized under Iowa Code Chapter 357A.

Cultural Affairs Sales..... Estimate – Minimal

Citation: Iowa Code 2005 423.3(34)

Certain sales are exempt if made by the Iowa Department of Cultural Affairs on the premises of property under control of the department and at the State Capitol. The department may sell mementos and other items relating to Iowa history and historic sites on the premises under their control.

Digital Goods..... Estimate - \$2,200,000

Citation: Iowa Code 2005 423.3(67) and IAC 701-18.61 & 231.14

The sales price of a sale at retail is exempt if the substance of the transaction is delivered to the purchaser digitally, electronically, or utilizing cable, or by radio waves, microwaves, satellites or fiber optics.

Domesticated Fowl Estimate - \$7,000,000

Citation: Iowa Code 2005 423.3(3) and IAC 701-17.9(2) & 18.12

Sales of domesticated fowl are exempt from sales tax. "Domesticated fowl" include any domesticated bird raised as a source of food, either eggs or meat. Domesticated fowl include, but are not limited to, chickens, ducks, turkeys, pigeons, ostriches, rheas, and emus. Sales of such animals for racing or as pets are not exempt from sales tax. Sales of any domesticated fowl for the purpose of providing eggs or meat are exempt from sales tax, whether sold to a person engaged in agricultural production or not.

Draft Horses Estimate – Minimal

Citation: Iowa Code 2005 423.3(14) and IAC 701-17.16

Sales of draft horses, when purchased for use as a draft horse, are exempt from sales tax. Horses commonly known as Clydesdale, Belgian, Shire, and Percheron are included as well as others which are shown to be used as draft horses. Horses are used as draft horses when they are used to pull a load. The load does not have to be commercial in nature.

E911 Service Surcharge Estimate - \$600,000

Citation: Iowa Code 2005 423.3(69A)

The E911 emergency telephone service surcharge is not included in the taxable sales of telephone service and thus is not subject to sales tax.

Electricity to Private Water Companies Estimate - \$1,500,000

Citation: Iowa Code 2005 423.3(53) and IAC 701-17.31

The sale of electricity to water companies with property assessed under sections 428.24, 428.26 and 428.28 are exempt to the extent that the electricity is used solely to pump water from wells or rivers.

Employment Placement Out-of-State Estimate – Not Estimated

Citation: Iowa Code 2005 423.2(6) and IAC 701-26.38

Sales by private employment agencies for services rendered for placing a person in employment where the person's principal place of employment is to be located outside the state of Iowa is exempt from sales tax.

Enterprise Zone Program (EZ) Sales Tax Refund Estimate - \$1,200,000

Citation: Iowa Code 2005 15E.196(2) and IAC 261-59.6(3)(e)

To encourage investment in Iowa's economically distressed areas, local and state tax credits, refunds and exemptions are available for qualifying companies that expand or locate in designated Enterprise Zones. To receive these benefits the business must make a minimum capital investment of \$500,000, create at least 10 full-time, project-related jobs and maintain them for at least 10 years, provide all full-time employees with the option of choosing a standard medical and dental insurance plan of which the business pays 80 percent of the premiums or a monetarily equivalent benefit, pay an average wage that meets or exceeds 90 percent of the average county or regional wage, whichever is lower. The business can not be a retail establishment or a business whose entrance is limited by cover charge or membership and cannot close or reduce its operation in one area of the state and relocate substantially the same operation in the Enterprise Zone. The local Enterprise Zone Commission and the Iowa Department of Economic Development must approve the business' proposed project prior to project initiation.

One of the tax incentives a business participating in EZ may receive is a refund of sales or use taxes paid to contractors or subcontractors during construction.

Excavation Notification Center Services Estimate – Minimal

Citation: Iowa Code 2005 423.3(24) and IAC 701-17.27

A state-wide excavation notification center was established by Iowa Code Section 480.3. According to Iowa Code, an excavator is required to contact the notification center and provide notice of a planned excavation. The notification center has established a toll-free telephone number to allow excavators to provide this notice. The notification center upon receiving notice from the excavator, shall immediately transmit the information to each person owning or operating an underground facility including, but not limited to public, private, and municipal utilities. Services rendered, furnished, or performed by the excavation notification center or by the vendor providing the services are not subject to sales tax.

Farm Machinery – Self-Propelled Estimate - \$55,500,000

Citation: Iowa Code 2005 423.3(8) and IAC 701-18.44 & 18.57(4)

The gross receipts from the sale or rental of farm machinery and equipment, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts if the machinery and equipment is used directly and primarily in production of agricultural products are exempt from the sales tax. The machinery and equipment must be self-propelled implements or implements customarily drawn or attached to self-propelled implements or be a grain dryer. Any replacement part must be essential to any repair or reconstruction necessary to the farm machinery's or equipment's use in the production of agricultural products. No machinery subject to vehicle registration qualifies. Amendments added an exemption for machinery and equipment used in the production of flowering, ornamental, or vegetable plants and expanded the exemption to include containers and receptacles used in agricultural production.

Farm Machinery – Special Purpose Estimate - \$8,700,000

Citation: Iowa Code 2005 423.3(11) and IAC 701-18.48 & 18.57(7)

The gross receipts from the sale or rental of farm machinery and equipment, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts are exempt from the sales tax. The implement, machinery, or equipment must be directly and primarily used in livestock or dairy production, used in aquaculture production, or in the production of flowering, ornamental or vegetable plants. It must not be self-propelled or customarily drawn or attached to self-propelled implements. Any replacement part must be essential to any repair or reconstruction necessary to its use. Amendments expanded the exemption to include containers and receptacles used in agricultural production.

Fees for Games and Amusements..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.2(3) and IAC 701-16.26(3)

Sales of entry fees at a place of amusement, fair or athletic event are not subject to sales tax when the sales of tickets or admissions charges for observing the activity are taxable. A fee includes, but is not limited to, entry fees, registration fees, or other charges made by the operator or sponsor of a game or other form of amusement for the right to participate in a game or amusement. Game or other form of amusement includes, but is not limited to, events such as golf tournaments, bowling tournaments, car races, motorcycle races, bridge tournaments, rodeos, animal shows, fishing contests, balloon races, and trap shoots.

Food Manufacturer's Tangible Personal Property Rental Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(49)

The lease or rental of tangible personal property is exempt from sales tax when used by a manufacturer of food products to produce marketable food products for human consumption. This includes but is not limited to the treatment of material to change its form, context, or condition in order to produce the food product, maintenance of quality or integrity of the food product, changing or maintenance of temperature levels necessary to avoid spoilage or to hold the food product in marketable condition, maintenance of environmental conditions necessary for the safe or efficient use of machinery and material used to produce the food product, sanitation and quality control activities, formation of packaging, placement into shipping containers, and movement of the material or food product until shipment from the building of manufacture.

Food Sales by Promoter of Iowa Products..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(25) and IAC 701-17.32

Sales of food and beverages for human consumption made by certain organizations that promote Iowa products and any other food or beverage sold by the organization in conjunction with the promoted Iowa product are exempt from sales tax. The organization must be (1) nonprofit and (2) organized to principally promote a food or beverage product for human consumption that is produced, grown or raised in Iowa.

Food Sales for Human Consumption Estimate - \$305,900,000

Citation: Iowa Code 2005 423.3(57) and IAC 701-20.1 & 231.3

Sales of food for human consumption are exempt from sales tax if those food items are eligible for purchase with food coupons issued by the United States Department of Agriculture pursuant to regulations in effect July 1, 1974. The following items are exempt from sales tax: (1) Candy, only if the candy contains flour (2) Beverages, if those beverages contain a primary dairy product or dairy ingredient or contain at least 50% natural fruit juice or vegetable juice (3) Bottled water, if the bottled water does not contain flavoring or sweetener.

Food Sales Purchased with Food Stamps Estimate - \$11,600,000

Citation: Iowa Code 2005 423.3(58) and IAC 701-20.1, 20.2, 20.3, 20.4, 20.5, & 20.6

Sales of all foods for human consumption which are purchased with food coupons issued through the Federal Food Stamp Act of 1977 are exempt from sales tax.

Fuel for Implements of Husbandry Estimate - \$19,200,000

Citation: Iowa Code 2005 423.3(6) & 423.3(10) and IAC 701-17.9(7) & 18.57(3)

Sales of fuel, gas, electricity, water and heat consumed in implements of husbandry are exempt from sales tax. An implement of husbandry is defined to mean any tool, equipment, or machine necessary to the carrying on of the business of agricultural production and without which that work could not be done. An airplane or helicopter designed for and used primarily in spraying or dusting of plants which are raised as part of agricultural production for market is an implement of husbandry. The sale of fuel used in milk coolers and milking machines, stationary irrigation equipment, implements used to handle feed, grain and hay and to provide water for livestock is also exempt from sales tax.

Fuel to Heat/Cool Greenhouses Estimate - \$100,000

Citation: Iowa Code 2005 423.3(6) and IAC 701-17.9(5) & 18.57(2)

Sales of fuel used for heating or cooling greenhouses, buildings or parts of buildings used for production of flowering, ornamental, or vegetable plants intended for sale are exempt from sales tax.

Fuel to Heat/Cool Livestock Buildings Estimate - \$5,600,000

Citation: Iowa Code 2005 423.3(6) and IAC 701-17.9(4)

The sale of fuel used to provide heat or cooling for livestock buildings is exempt from sales tax. Fuel includes electricity and livestock includes domesticated fowl.

Fuel Used in Aquaculture Estimate – Minimal

Citation: Iowa Code 2005 423.3(6) and IAC 701-17.9(6)

Sales of fuel used in cultivation of agricultural products by aquaculture are exempt from sales tax.

Fuel Used in Grain Drying Estimate - \$7,400,000

Citation: Iowa Code 2005 423.3(6) and IAC 701-17.9(7)d & 17.2

The sale of fuel used in grain drying is exempt from sales tax. Fuel includes electricity.

Gambling Boat Games and Admissions Estimate - \$207,300,000

Citation: Iowa Code 2005 99F.10(6) and IAC 701-17.25

Sales by licensees authorized to operate excursion gambling boats for (1) charges for admission to excursion gambling boats and (2) gross receipts from gambling games authorized by the state racing and gaming commission and conducted on excursion gambling boats are exempt from sales tax.

Goods for Clothing Maintenance and Repair Estimate - \$600,000

Citation: Iowa Code 2005 423.3(51) and IAC 701-18.7, 18.47 & 225.5

Sales of chemicals, solvents, sorbents, or reagents consumed in the maintenance or repair of fabric or clothing are exempt from tax. Generally, this applies to dry-cleaning and laundry establishments but also applies to any chemical or solvent used to clean carpeting. Also, the sale of property which is a label, container or similar article or receptacle for transfer in association with the maintenance or repair of fabric or clothing is exempt from tax. Exempt items include plastic garment bags, "shirt boards" and garment hangers. A container, label or similar article is exempt from tax only if the item is transferred to the customer. Thus, bundle bags and meese carts used to transfer or transport clothing within a dry-cleaning establishment are not subject to the exemption.

Grain Dryers Estimate - \$700,000

Citation: Iowa Code 2005 423.3(8) and IAC 701-18.44(2)(f)

The gross receipts from the sale or rental of a grain dryer including auxiliary attachments which improve the performance, safety, operation, or efficiency of the machinery and equipment and replacement parts are exempt from the Iowa sales tax. The grain dryer must be directly and primarily used in production of agricultural products. Replacement parts must be essential to any repair or reconstruction necessary to the use in the production of agricultural products. The term grain dryer includes the heater and the blower necessary to force the warmed air into a grain storage bin. It does not include equipment used in grain storage or movement such as augers and spreaders or any other equipment that is not a grain dryer. Equipment other than a grain dryer which is used in grain drying may be exempt or subject to refund if the equipment is a self-propelled implement or customarily drawn or attached to a self-propelled implement.

Habitat for Humanity Type Organizations Estimate – Minimal
Citation: Iowa Code 2005 423.3(88)

The sales price from the sale of building materials, supplies, goods, wares, or merchandise are exempt from sales tax when they are sold to a nonprofit Iowa affiliate of a nonprofit international organization whose primary activity is the promotion of the construction, remodeling, or rehabilitation of one-family or two-family dwellings for use by low-income families and where the building materials, supplies, goods, wares, or merchandise are used in the construction, remodeling or rehabilitation of such dwellings.

High Quality Job Creation Program (HQQCP) Sales Tax Refund Estimate - \$0
Citation: Iowa Code 2005 15.331A and IAC 261-68.4(1)

The High Quality Job Creation Program replaces the New Jobs and Income Program (NJIP) and the New Capital Investment Programs (NCIP). The amount of tax incentives awarded is dependent on the number of jobs created and the qualifying investment made. Actual award amounts will be based on the business's level of need; the quality of the jobs; the percentage of created jobs defined as high-quality; and the economic impact of the project. The new jobs must have a starting wage including certain benefits which is at least 130 percent of the average county wage to be eligible for these tax credits. This program went into effect on July 1, 2005.

One of the tax incentives a business participating in HQJCP receives is a refund of sales or use taxes paid to contractors or subcontractors during construction. There were no claims of this refund in 2005.

Industrial Machinery, Equipment and Computers Estimate - \$111,300,000
Citation: Iowa Code 2005 423.3(47) and IAC 701-18.58

This estimate includes:

- New Installation of Industrial Machinery

Receipts from the sale or rental of machinery, equipment or computers used by a manufacturer in processing are exempt from sales and use tax. The sale or rental of a computer used in the processing or storage of data or information by an insurance company, financial institution, or commercial enterprise; and the sale or rental of various other types of tangible personal property under certain circumstances are also exempt. "Commercial enterprise" includes businesses and manufacturers conducted for profit and includes centers for data processing services for insurance companies, financial institutions, businesses and manufacturers, but excludes professions and occupations and nonprofit organizations. "Occupations" means the principal business of an individual and includes the business of farming. Manufacturing includes all activities subsequent to the extractive process of quarrying or mining.

Inert Gases Estimate - \$3,200,000

Citation: Iowa Code 2005 423.3(52) and IAC 701-18.60 & 230.5

Sales of inert gases to be used in the manufacturing process are exempt from sales tax. Only sales of inert gases are eligible for the exemption. Argon, helium, hydrogen, neon, nitrogen, carbon dioxide, krypton, xenon and radon are exclusive examples of inert gases. These sales are exempt only if the gas is purchased by a manufacturer for use in processing.

Information Services..... Estimate - \$8,400,000

Citation: Iowa Code 2005 423.3(66) and IAC 701-17.36 & 231.13

The sale or rental of information services is exempt from sales tax. An "information service" is every business activity, process, or function by which a seller or its agent accumulates, prepares, organizes or conveys data, facts, knowledge, procedures and like services to a buyer or its agent of such information through any tangible or intangible medium. Database files, mailing lists, subscription files, market research, credit reports, surveys, real estate listings, bond rating services, wire services, and scouting reports are some examples of information services.

Interstate Sales Estimate - \$335,700,000

Citation: Iowa Code 2005 423.3(43)

The sale of property or of services performed on property which the retailer sends or delivers to a point outside of Iowa are exempt from sales tax as long as the property is not thereafter returned to a point within Iowa, except solely in the course of interstate commerce or transportation. If physical possession of the property occurs in the state of Iowa by the purchaser, consumer or their agent, the exemption no longer applies.

Irrigation Equipment for Farming Estimate - \$200,000

Citation: Iowa Code 2005 423.3(12) & 423.3(13) and IAC 701-18.52

Gross receipts from the sale or rental of irrigation equipment used in farming operations, whether installed above or below ground, to a contractor or farmer if the equipment will be primarily used in agricultural operations, are exempt from sales tax.

Laboratory Tests on Animals Estimate - \$2,800,000

Citation: Iowa Code 2005 423.2(6)

Gross receipts from the service of laboratory testing on animals including mobile testing laboratories and field testing by testing laboratories are exempt from sales tax.

Laboratory Tests on Humans..... Estimate - \$75,800,000

Citation: Iowa Code 2005 423.2(6) and IAC 701-26.44

The service of laboratory testing on humans is exempt from sales tax. Laboratory testing includes that conducted at mobile testing laboratories and field testing by test laboratories.

Legislative Services Agency Estimate – Minimal
Citation: Iowa Code 2005 423.3(33)

The sales price of mementos and other items relating to Iowa history and historic sites, the general assembly, and the state capitol, sold by the legislative services agency and its legislative information office on the premises of property under the control of the legislative council, at the state capitol, and on other state property. The legislative services agency is not a retailer under this chapter and the sale of items or provision of services by the legislative services agency is not a retail sale under this chapter and is exempt from the sales tax.

Livestock Ear Tags Estimate – Minimal
Citation: Iowa Code 2005 423.3(30) and IAC 701-17.9(1) & 17.35

Sales of livestock ear tags by a nonprofit organization, the income of which is exempt from federal taxation under Section 501(c)(6) of the Internal Revenue Code, are exempt from sales tax if the proceeds of those sales are used in bovine research programs selected or approved by the nonprofit organization.

Livestock or Fowl Bedding..... Estimate – Minimal
Citation: Iowa Code 2005 423.3(9) and IAC 701-17.26

Sales of wood chips, sawdust, hay, straw, paper or other materials used for bedding in the production of agricultural livestock or fowl are exempt from sales tax.

Long-Term Room Rental Estimate – Not Estimated
Citation: Iowa Code 2005 423.2(1)(a)(5) and IAC 701-18.40

The renting of all rooms by the same person for a period of more than 31 consecutive days is exempt from sales tax. Rooms include but are not limited to: sleeping rooms, banquet rooms or conference rooms in any hotel, motel, inn, public lodging house, rooming or tourist court, or in any place where sleeping accommodations are furnished to transient guests, whether with or without meals.

Lottery Tickets Estimate - \$13,800,000
Citation: Iowa Code 2005 423.3(81)

Sales of lottery tickets or shares of a lottery game are exempt from sales tax.

Massage Therapy..... Estimate - \$2,700,000
Citation: Iowa Code 2005 423.2(6) and IAC 701-26.47

The sale of massage therapy services provided by massage therapists licensed under Iowa Code 152C are exempt from sales tax.

Modular Home Exemption Estimate - \$1,800,000
Citation: Iowa Code 2005 423.3(64) and IAC 701-17.22

40% of the gross receipts of sales of modular homes is exempt from tax. A "modular home" is any structure, built in a factory, made to be used as a place for human habitation which cannot be attached or towed behind a motor vehicle and which does not have permanently attached to its body or frame any wheels or axles.

New Capital Investment Program (NCIP) Sales Tax Refund Estimate - \$300,000
Citation: Iowa Code 2005 15.381 through 15.387 and IAC 261-64

The New Capital Investment Program provides a package of tax credits and exemptions to businesses making a capital investment of at least \$1,000,000. Any awards made before July 1, 2005, will be honored until the NCIP contract expires. In order to be eligible for NCIP benefits, a company must meet several requirements. To qualify as a high-quality job, new jobs must pay a starting wage of at least the average county wage (see appendix for recent county and regional wages). The company must also provide and pay at least 80 percent of the costs of a standard employee medical insurance plan for all full-time employees. The company must not close or significantly reduce operations elsewhere in Iowa in order to relocate the operation to the proposed community. Retail establishments are not eligible.

One of the tax incentives a business participating in NCIP may receive is a refund of sales or use taxes paid to contractors or subcontractors during construction.

New Jobs and Income Program (NJIP) Sales Tax Refund Estimate - \$400,000
Citation: Iowa Code 2005 15.326 through 15.337 and IAC 261-58.4(7)

The New Jobs and Income Program provides a package of tax credits and exemptions to businesses making a capital investment of at least \$12,100,000 in CY 2005 and creating 50 or more jobs meeting wage and benefit targets within five years. Any awards made before July 1, 2005 will be honored until the NJIP contract expires. A business is eligible for NJIP benefits if it pays a median starting wage of at least \$13.35 per hour in CY 2005 or 130 percent of the average county wage, whichever is higher, provides and pays at least 80 percent of the costs of a standard employee medical and dental insurance plan for all full-time employees, does not close or significantly reduce operations elsewhere in Iowa in order to relocate the operation to the proposed community and it is not a retail establishment.

One of the tax incentives a business participating in NJIP may receive is a refund of sales or use taxes paid to contractors or subcontractors during construction.

Newspapers Estimate - \$3,400,000
Citation: Iowa Code 2005 423.3(55) and IAC 701-18.42 & 231.1

The gross receipts from the sale of newspapers, free newspapers and shoppers' guides are exempt from sales tax. A "newspaper" is a periodical, published at short, stated and regular intervals, usually daily or weekly. It is printed on newsprint with news ink. The format of a newspaper is that of sheets folded loosely together without stapling.

Nonprofit Disabled Service Providers Estimate – Not Estimated
Citation: Iowa Code 2005 423.3(18) and IAC 701-17.19(2) & (3)

Sales to nonprofit corporations providing residential care and intermediate care for the mentally retarded and residential care for the mentally ill that are licensed by the Department of Health under Iowa Code chapter 135C or residential facilities for mentally retarded children that are licensed by the Department of Human Services under Iowa Code chapter 237 including facilities maintained by “individuals” as defined in section 237.1(7) are exempt from sales tax. All residential facilities for child foster care (not only those for mentally retarded children) licensed by the Department of Human Services under chapter 237, other than those maintained by “individuals” as defined in Iowa Code section 237.1(7) are also eligible for the exemption. Rehabilitation facilities that provide accredited rehabilitation services to persons with disabilities which are accredited by the commission on accreditation of rehabilitation facilities or the accreditation council for services for mentally retarded and other developmentally disabled persons and adult day care services approved for reimbursement by the Department of Human Services are included in the exemption as well as community mental health centers accredited by the Department of Human Services under Iowa Code chapter 225C. The exemption also covers a nonprofit corporation which is a certified home and community-based service provider certified to offer Medicaid waiver services by the Iowa Department of Human Services. The exemption does not apply to the purchase of building materials by a contractor for use in the construction, remodeling or reconditioning of a facility used or to be used by any of those exempt corporations.

Nonprofit Health Centers Estimate – Not Estimated
Citation: Iowa Code 2005 423.3(18)(e) and IAC 701-17.19(1) & (3)

Sales to community health centers as defined in 42 USCA section 254c and to migrant health centers defined in 42 USCA section 254b are exempt from sales tax. The exemption does not apply to tax paid on the purchase of building materials by a contractor which are used in the construction, remodeling or reconditioning of a facility used or to be used by any of these health centers.

Nonprofit Health Services Computers Estimate – Not Estimated
Citation: Iowa Code 2005 423.3(47) and IAC 701-18.45

Sales of computers to nonprofit health service corporations who are organized under Iowa Code chapter 514 are exempt from sales tax. These are essentially insurance companies and are treated as such.

Nonprofit Hospice Facilities Estimate - \$4,200,000

Citation: Iowa Code 2005 423.3(28) and IAC 701-17.34

The sale or rental of tangible personal property or the performance of services for any freestanding nonprofit hospice facility which operates a hospice program is exempt if the property or service is purchased for use in the hospice's program. A "hospice program" is any program operated by a public agency, a private organization, or a subdivision of either, which is primarily engaged in providing care to terminally ill individuals.

Nonprofit Hospitals Estimate - \$108,360,000

Citation: Iowa Code 2005 423.3(27) and IAC 701-18.24 & 18.59

Sales to and from the rendering, furnishing or performing of services or sales of tangible personal property for a nonprofit hospital licensed under Iowa Code 135B are exempt if the property or service purchased is used in the operation of the hospital. A hospital is not entitled to claim a refund for tax paid by a contractor on the sale or use of tangible personal property or the performance of services in the fulfillment of a written construction contract with the hospital. "Hospital" means a place devoted primarily to the maintenance and operation of facilities for the diagnosis, treatment, or care over a period exceeding 24 hours of two or more unrelated individuals suffering from illness, injury or a medical condition. Also included in the definition are institutions, places, buildings or agencies providing accommodations for aged or infirm persons requiring or receiving chronic or convalescent care.

Nonprofit Legal Aid Organizations Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(20) and IAC 701-18.51

Sales, including rent and services, to nonprofit legal aid organizations are exempt from sales tax.

Nonprofit Lending Organizations Estimate – Not Estimated

Citations: Iowa Code 2005 423.3(19) and IAC 701-18.50

Sales of tangible personal property to a nonprofit organization organized for the purpose of lending the tangible personal property to the general public on a nonprofit rental basis are exempt. The exemption is applicable to tangible personal property only and not to taxable services.

Nonprofit Organ Procurement Organization Estimate – Minimal

Citation: Iowa Code 2005 423.3(26) and IAC 701-17.30

Sales of tangible personal property or services rendered, furnished or performed for a statewide, nonprofit organ procurement organization are exempt from sales tax. An "organ procurement organization" is an organization which performs or coordinates the activities of retrieving, preserving or transplanting organs, which maintains a system of location prospective recipients for available organs and which is registered with the United Network for Organ Sharing and designated by the United States Secretary of Health and Human Services.

Nonprofit Private Art Center..... Estimate – Not Estimated
Citation: Iowa Code 2005 423.3(22) and IAC 701-17.39

The sales of goods, wares, or merchandise or from services performed, rendered, or furnished to a private nonprofit art center located in Iowa which are used in the operation of the art center are exempt from sales tax. The organization seeking to claim this exemption must be a private nonprofit art center. For the purpose of this rule, an “art center” is defined as a structure that displays aesthetic objects which are the product of the conscious use of skill and creative imagination. The structure housing the art must be open to the public with regular hours and with staff available to answer visitors’ questions. “Open to the public on a regular basis” means the facility is open for visitors periodically or at fixed intervals. The art center must be located in Iowa. Purchases of tangible personal property or services must be for the operation of the art center.

Nonprofit Private Educational Institutions Estimate - \$9,800,000
Citation: Iowa Code 2005 423.3(17) and IAC 701-17.11

Sales of goods, wares, merchandise, or services to any nonprofit private educational institution in Iowa, if used for educational purposes, are exempt. A nonprofit private educational institution consists of a school, college, or university with students, faculty, and an established curriculum, a group of qualifying organizations acting in concert, or libraries.

Nonprofit Private Museums..... Estimate – Not Estimated
Citation: Iowa Code 2005 423.3(21) and IAC 701-17.24

Sales of goods, wares, merchandise or services to private nonprofit museums are exempt if they are used for educational, scientific, historic preservation, or aesthetic purpose. A "museum" is an institution organized for educational, scientific, historical preservation, or aesthetic purposes which is predominately devoted to the care and exhibition of a collection of objects in a room, building, or locale. This collection must be open to the public on a regular basis and its staff must be available to answer questions regarding the collection. Museums include: art galleries, historical museums, museums of natural history, and museums devoted to one particular subject or one person.

On-Line Computer Service Estimate - \$29,900,000
Citation: Iowa Code 2005 423.3(65) and IAC 18.20(5)

The furnishing of any contracted on-line service is exempt from sales tax if the information is made available through a computer server. The exemption applies to all contracted on-line services, as long as they provide access to information through a computer server.

Optional Residential Warranty Contracts..... Estimate - \$200,000

Citation: Iowa Code 2005 423.3(4) and IAC 701-18.25(3)(b)

The sales of residential warranty contracts regulated under Iowa Code Chapter 523C are exempt. The sales of the service contracts are not taxable, but the sales of any taxable services performed for the providers of residential service contracts are subject to tax. A "residential service contract" is a contract or agreement between a residential customer and a service company which undertakes, for a predetermined fee and for a specified period of time, to maintain, repair, or replace all or any part of the structural components, appliances, or electrical, plumbing, heating, cooling, or air-conditioning systems of residential property containing not more than four dwelling units.

Packaging Containers Estimate - \$62,500,000

Citation: Iowa Code 2005 423.3(45) and IAC 701-18.7 & 32.7

The sales of property which is a container, label, carton, pallet, packing case, wrapping paper, twine, bag, bottle, shipping case, or other similar article or receptacle is exempt from sales tax when sold to retailers or manufacturers for the purpose of packaging or facilitating the transportation of tangible personal property sold at retail or transferred in association with the maintenance or repair of fabric or clothing.

Prescription Drugs and Medical Devices Estimate - \$80,300,000

Citation: Iowa Code 2005 423.3(60) and IAC 701-20.7, 20.8, & 20.9

The sale or rental of prescription drugs, durable medical equipment, mobility enhancing equipment, prosthetic devices, and other medical devices intended for human use or consumption is exempt from sales tax. Where "drug" means a compound, substance, or preparation, and any component of a compound, substance, or preparation, other than food and food ingredients, dietary supplements, or alcoholic beverages and "mobility enhancing equipment" means equipment, including repair and replacement parts, but does not include durable medical equipment. "Other medical device" means equipment or a supply that is not a drug, durable medical equipment, mobility enhancing equipment, or prosthetic device.

Printers' and Publishers' Supplies Estimate - \$3,200,000

Iowa Code 2005 423.3(46) and IAC 701-18.33

Sales by trade shops to a printer or publisher of an enumerated list of products that are generally expendable tools and supplies used to complete a finished product for sale at retail are exempt from tax. A "printer" means a business engaged in printing that completes a finished product for ultimate sale at retail or one that is used to complete a finished printed packaging material used to package a product for ultimate sale at retail. "Printer" does not mean an in-house printer who prints or copyrights its own materials.

Prizes for Gambling Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(63) and IAC 701-17.21

Sales of tangible personal property which is to be given as prizes to players in games of skill, games of chance, raffles, and bingo games as defined in and lawful under Iowa Code chapter 99B are exempt from sales tax. A gift certificate is not tangible personal property. If a person wins a gift certificate as a prize at the time the person redeems the gift certificate any tax due is payable.

Processing Chemicals Estimate - \$24,600,000

Citation: Iowa Code 2005 423.3(51) & 423.6(3)(c) and IAC 701-17.14, 18.29 & 230.4

Chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated, or depleted in processing tangible personal property intended to be sold ultimately at retail shall be exempt from sales and use tax. A catalyst is considered to be a chemical, solvent, sorbent or reagent. The chemical, solvent, sorbent, or reagent need not become an integral or component part of the processed tangible personal property. This estimate includes chemicals, solvents, sorbents and reagents directly used and consumed, dissipated or depleted in the processing of free newspapers and shoppers guides, as the distribution of these papers is considered a retail sale.

Processing Photography Estimate - \$2,100,000

Citation: Iowa Code 2005 423.2(1)(a)(1) and IAC 701-16.51(1)

The sale of engraving, photography, retouching, printing and binding services are considered sales of tangible personal property instead of services. This extends the processing exemption so that it applies to them. Thus, sales of chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated or depleted in engraving, photography, retouching, printing and binding are exempt.

Processing Power and Fuel Estimate - \$85,500,000

Citation: Iowa Code 2005 423.3(51) & 423.6(3)(b) and IAC 701-17.2, 17.3, 18.29 & 33.3

This estimate includes:

- Processing Electricity and Steam

Receipts from the sale of tangible personal property which is to be consumed as fuel in creating power, heat or steam for processing or for generating electric current, are exempt from sales tax. This does not include heat for heating buildings, whether for manufacturing, processing, warehousing or for offices. Sales of electricity for lighting and ventilating and fuels used to enable storage after manufacturing are also not exempt.

Processing Services..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(51) and IAC 701-26.2(2) & 230.3

The sales of tangible personal property sold for processing are exempt. Tangible personal property is sold for processing within the meaning of this subsection only when it is intended that the property will, by means of fabrication, compounding, manufacturing, or germination, become an integral part of other tangible personal property intended to be sold ultimately at retail or for general electric current; or the property is a chemical, solvent, sorbent, or reagent, which is directly used and is consumed, dissipated, or depleted in the processing tangible personal property which is intended to be sold at retail or consumed in the maintenance or repair of fabric or clothing and which is may not become a component or integral part of the finished product.

Processing Services for Food Products Estimate - \$20,200,000

Citation: Iowa Code 2005 423.3(49) and IAC 701-17.3(2) & 230.2

An expanded definition of "processing" is allowed to manufacturers of food products for human consumption. Sales of any carbon dioxide in a liquid, solid or gaseous form, electricity, steam, or other taxable services primarily used in the performance of the activities are exempt from sales tax. The exemption applies for the activities of: (1) treatment of material that changes its form, context, or condition in order to produce a marketable food product for human consumption, (2) maintenance of quality or integrity of the food product and the maintenance or the changing of temperature levels necessary to avoid spoilage or to hold the food in marketable condition, (3) maintenance of necessary environmental conditions, (4) sanitation and quality control, (5) formation of packaging, (6) placement into shipping containers, and (7) movement of product until shipment from the building of manufacturer.

Processing Tire Retreading..... Estimate - \$400,000

Citation: Iowa Code 2005 423.2(1)(a)(2) and IAC 701-16.51(2)

The sale of chemicals, solvents, sorbents, and reagents directly used and consumed, dissipated or depleted in vulcanizing, recapping, and retreading are exempt from sales tax. The sale of vulcanizing, recapping and retreading are considered the sale of tangible personal property instead of services.

Racetrack Pilot Program..... Estimate - \$400,000

Citation: Iowa Code 2005 423.4(5)

A state sales tax rebate provision which provides that a nationally sanctioned automobile racetrack facility may apply for a rebate of sales tax imposed and collected by retailers on the sales of any goods, wares, merchandise, or services to purchasers at the racetrack facility.

Raffle Ticket Sales at Fairs..... Estimate - \$300,000

Citation: Iowa Code 2005 423.3(62) and IAC 701-17.20 & 231.9

Sales of raffle tickets for a raffle licensed pursuant to Iowa Code section 99B.5 conducted at fairs by the sponsor of the fair or by a qualified organization are exempt.

Railroad Rolling Stock..... Estimate – Minimal

Citation: Iowa Code 2005 423.3(71) and IAC 701-17.13

Sales of tangible personal property used or to be used as railroad rolling stock for transporting persons or property are exempt along with related materials and parts. Railroad rolling stock is that portion of railroad property that is incapable of being affixed or annexed on any one place and that is intended for movement on rails to transport persons or property whether for hire or not for hire. Locomotives, railroad cars, and materials and parts used are exempt. Fuel and lubricants used in railroad rolling stock are materials used in railroad rolling stock and their sales are exempt. Enumerated services are not railroad rolling stock and are not exempt.

Reciprocal Shipment of Wine..... Estimate – Minimal

Citation: Iowa Code 2005 423.3(44) and IAC 701-17.29

Sales of wine shipped by common carrier into this state to a person 21 years of age or older from a winery licensed or permitted pursuant to laws regulating alcoholic beverages in a state which affords this state an equal reciprocal shipping privilege are exempt from sales tax. The wine is not to be resold and is limited to 18 liters per month per consumer. "Equal reciprocal shipping privilege" means allowing wineries located in Iowa to ship wine into another state, not for resale, but for consumption or use by a person 21 years of age or older.

Reciprocal Utility Exemption..... Estimate – Minimal

Citation: Iowa Code 2005 423.3(36) and IAC 701-17.23

Sales of tangible personal property or the sale, furnishing or services of electrical energy, natural or artificial gas, or communication services are exempt from sales tax if made to another state or political subdivision of another state if the other state provides a similar reciprocal exemption for this state and political subdivisions of this state.

Reconditioning Services Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(2) and IAC 701-26.2(8) & 225.3

Sales of services are exempt from sales tax when used in the reconditioning or repairing of tangible personal property which is normally sold in the regular course of the retailer's business and which is held for sale by the retailer. For example, Company A owns a retail appliance store and contracts with Company B to repair a refrigerator that Company A is going to resell. Company A can purchase the repair service from Company B tax free because Company A is regularly engaged in selling refrigerators and will offer the refrigerator for sale when it is repaired.

Recycling and Waste Reprocessing Equipment..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(47)(a)(5) and IAC 701-18.45(8)

Receipts from sales or rentals of machinery, equipment, or computers directly and primarily used in the recycling or reprocessing of waste products are exempt. Machinery or equipment eligible include: compactors, balers, crushers, grinders, cutters or shears. The property does not need to be "real property" in order to qualify. Recycling or reprocessing can begin when waste or material, which would otherwise become waste, is collected or separated. The end of recycling or reprocessing is when waste or a material which would otherwise become waste is in the form of raw material in which it will be used in manufacturing or in the form of a product which will be sold for use other than as a raw material in manufacturing.

Relief Agency Refunds Estimate – Minimal

Citation: Iowa Code 2005 423.4(3) and IAC 701-18.6

Sales tax paid by a relief agency may be refunded upon the purchase of goods, wares, merchandise or services rendered, furnished, or performed that are used for free distribution to the poor and needy. Persons are determined to be in the poor and needy category when their incomes and resources are at or below the poverty level based upon federal guidelines.

Rental or Broadcast of Entertainment Media Estimate - \$8,900,000

Citation: Iowa Code 2005 423.3(41) and IAC 701-17.18

Sales from the rental of films, video and audio tapes or discs, records, photos, copy, scripts, or other media used for the purpose of transmitting that which can be seen, heard or read is exempt from sales tax if the lessee imposes a charge for the viewing or rental of the media with that charge subject to Iowa sales tax, or the lessee broadcasts the contents of the media for public viewing or listening. Sales of motion picture films, video and audio tapes or discs and records or any other media, which can be seen, heard, or read are exempt if the sales from the ultimate leasing or renting of the media are subject to Iowa sales tax.

Residential Utility Exemption Estimate - \$89,400,000

Citation: Iowa Code 2005 423.3(84) and IAC 701-17.38 & 231.16

The sales price from the sale or furnishing of metered gas, electricity, and fuel, including propane and heating oil, to residential customers which is used to provide energy for residential dwellings and units of apartment and condominium complexes used for human occupancy is exempt from sales tax. During calendar year 2005 the sales tax rate for residential utility purchases equaled 1 percent.

Sale of Tangible Personal Property for Resale Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(2)

The sales for resale of tangible personal property or taxable services, or tangible personal property in connection with the furnishing of taxable services are exempt from sales tax. This excludes sales, other than leases or rentals, which are sales of machinery, equipment, attachments, and replacement parts used in connection with new construction, reconstruction, alteration, expansion, or remodeling. This also excludes the purchase of tangible personal property when used by a manufacturer of food products to produce marketable food products for human consumption.

Sales by a City or County Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(32) and IAC 701-18.39

In general, sales made by a city or county are exempt from sales tax. The exemption does not apply to sales from furnishing or service of gas, electricity, water, heat and communication services rendered, furnished or performed by a county or city. Sales of fees for participating in any athletic sports by counties and cities are taxable. Also, sales from a county or municipality furnishing sewage service or solid waste collection and disposal service to nonresidential commercial operations are taxable.

Sales by State, County or District Fairs Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(23) and IAC 701-17.28

Sales of tangible property or services rendered, furnished or performed by the state fair organized under Iowa Code chapter 173 or a county, district or fair society organized under Iowa Code chapter 174 are exempt from sales tax. This exemption does not apply to individuals, entities, or others that sell or provide services at the state, county, district fair or fair societies.

Sales for Educational, Religious or Charitable Activities Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(78) and IAC 701-17.1

Gross receipts from the sale or rental of tangible personal property or services in which the profits are used by or donated to a qualifying nonprofit entity are exempt from Iowa sales or use tax. The profits must be expended on educational, religious, or charitable activities in order for the sales transactions to be exempt from sales tax. Sales transactions are exempt from sales tax to the extent that profits are expended on educational, religious, or charitable purposes. This exemption does not apply to the gross receipts from games of skill, games of chance, raffles, and bingo games. “Educational” means any of the following: the acquisition of knowledge tending to develop and train the individual, an activity that has as its primary purpose to educate by teaching, an activity that has as its primary objective to give educational instruction, an activity for which the educational process is not merely incidental, or an activity where the purpose is systematic instruction. “Religious purpose” is analogous to “religious worship.” In the broadest of terms, it includes all forms of belief in the existence of superior beings or things capable of exercising power over the human race. It also includes the use of property by a religious society or by a body of persons as a place for public worship. The term “charitable” may be applied to almost anything that tends to promote well-doing and well-being for public good or public welfare with no pecuniary profit inuring to the one performing the service or the giving of gifts by persons kindly disposed toward others, without obligation.

Sand Handling and Core & Mold Making Equipment..... Estimate - \$1,000,000

Citation: Iowa Code 2005 423.3(82)

The sales price from the sale or rental of core-making, mold-making and sand-handling machinery and equipment is exempt from sales tax, including replacement parts, directly and primarily used in the mold-making process by a foundry. Also, the sales price from sales of fuel used in creating heat, power, steam, or for generating electric current, or from sales of electricity, consumed by core making, mold making, and sand handling machinery and equipment used directly and primarily in the mold-making process by a foundry is exempted from sales tax. Finally, the sales price from the furnishing of the design and installation, including electrical and electronic installation, of core making, mold making, and sand handling machinery and equipment used directly and primarily in the mold-making process by a foundry is exempted from sales tax as well.

Services Performed on a Vessel Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(86)

The sales price from service performed on a vessel is exempt from sales tax if all of the following conditions apply: 1) The vessel is a licensed vessel under the laws of the United States coast guard 2) The service is used to repair or restore a defect in the vessel 3) The vessel is engaged in interstate commerce and will continue in interstate commerce once the repairs or restoration is completed and 4) The vessel is in navigable water that borders a boundary in Iowa.

Software Maintenance or Support Contract..... Estimate - \$100,000
Citation: Iowa Code 2005 423.2(1)(a)(4) and IAC 701-18.25(3)(c)

If the optional service or warranty contract is a computer software maintenance or support service contract and there is no separately stated fee for the taxable personal property or for the nontaxable service, the tax imposed by this subsection shall be imposed on fifty percent of the sales price from the sale of such contract. If the contract provides for technical support services only, no tax shall be imposed under this subsection.

Tax Levying or Certifying Bodies in Iowa Estimate - \$74,600,000
Citation: Iowa Code 2005 423.3(31) and IAC 701-18.5(3)

Sales to any tax-certifying or tax-levying body of the State of Iowa or governmental subdivision are exempt. This includes regional transit systems, the state board of regents, state department of human services, state department of transportation, and all divisions, boards, commissions, agencies or instrumentalities of the state, federal, county, or municipal government which have no earnings going to the benefit of an equity investor or stockholder are exempt. Not exempt are sales in connection with the operation of any municipally owned public utility engaged in selling gas, electricity, pay television service, or heat to the general public or providing sewage service or solid waste collection and disposal service to a county or municipality on behalf of nonresidential commercial operations located within the county or municipality. The exemption does not apply to contractors, who deal with agencies, instrumentalities or other entities of government.

Toys for Tots Type Organizations Estimate - \$160,000
Citation: Iowa Code 2005 423.3(87)

The sale price from the sale of toys purchased by a nonprofit organization that is exempt from federal income tax under section 501 of the Internal Revenue Code is exempt from sales tax, if these purchases are from donations collected by the nonprofit organizations and distributed to children at no cost.

Trade-In for Remanufacture or Resale Estimate - \$107,900,000
Citation: Iowa Code 2005 423.3(59) and IAC 701-15.19(2)

When tangible personal property is traded toward the purchase price of other tangible personal property, the gross receipts are only the portion of the purchase price which is payable in money to the retailer if three conditions are met: (a) the tangible personal property is traded to a retailer, and the property traded is the type normally sold in the regular course of the retailer's business; and (b) the tangible personal property traded to the retailer is intended by the retailer to be ultimately sold at retail; or (c) the tangible personal property traded to a retailer is intended to be used by the retailer or another in the remanufacturing of a like item.

Transportation Services – All Air Charters Estimate - \$4,100,000

Citation: Iowa Code 2005 423.3(61) & 423.3(7) and IAC 701-26.21

This estimate includes:

- Transportation Services – Agricultural Aerial Spraying

Sales price of services furnished by specialized flying implements of husbandry used for agricultural aerial spraying and aerial commercial and chartered transportation services.

Transportation Services – General Estimate - \$229,800,000

Citation: Iowa Code 2005 423.3(70) and IAC 701-19.14 & 26.42(4)(a)

Transportation and delivery charges are exempt when they are separately contracted in writing. If no written contract exists, the charges are not subject to sales and use tax if the bill itemizes the charges. The exemption does not apply to the services of transporting electrical energy or natural gas. The exemption also does not apply to the rental of recreational vehicles or boats. The exemption does include transportation of people.

Transportation Services – Long-Term Rent Estimate – Not Estimated

Citation: Iowa Code 2005 423.3(70) and IAC 701-26.68(2)(a) & 26.74

Sales from the leasing of any vehicle subject to registration for a gross weight of 13 tons or less is exempt from sales tax if the written lease is for more than 60 days and if the lessor, at the time of the signing of the lease, is licensed under Iowa Code 321F. Use tax may be imposed upon certain motor vehicle leases for a period of 12 months or more. The total gross receipts for rental of aircraft for 60 days or more are exempt from sales tax. "Aircraft" means the same as defined in Iowa Code section 328.1, subsection 4, which includes a drone aircraft or one transporting only the pilot.

Water Sold to Farmers Estimate - \$400,000

Citation: Iowa Code 2005 423.3(5) and IAC 701-17.9(8) & 18.57(5)

Sales of water used as drinking water for livestock or poultry products for market are exempt from sales tax. Sales of water used in the production of plants are also exempt.

Use Tax

Aircraft Exemptions.....	Not Estimated
Barges and Waterborne Vessels.....	Not Estimated
Business Transfer of Vehicles.....	Not Estimated
Lemon Law Refunds	Not Estimated
Partial Exemption on Mobile Homes	\$1,000,000
Previously Taxed Mobile Homes.....	Not Estimated
Property for Leased Vehicle Manufacture	Not Estimated

Aircraft Exemptions Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(19), (20), (21), (22) and IAC 701-31.6 & 32.13

"Aircraft" are subject only to use tax. The use of the following aircraft is exempt: 1. use in scheduled interstate Federal Aviation Administration certified air carrier operations and 2. use by an aircraft dealer who rents or leases the aircraft if the aircraft is kept in the inventory of the dealer, the dealer reserves the right to regain possession if a buyer is found and the renter or lessee understands the arrangement. Also, use is exempt for tangible personal property permanently affixed or attached as a component part of the aircraft including, but not limited to, repair or replacement materials or parts; and all services used for aircraft repair, remodeling, and maintenance services when such services are performed on aircraft, aircraft engines, or aircraft component materials or parts for schedules or non-scheduled FAA certified air carriers.

Barges and Waterborne Vessels..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(15) and IAC 701-32.6

Any ship, barge or other waterborne vessel is exempt from use tax if the vessel's use is primarily for the transportation of property or cargo for hire on the rivers bordering this state. The exemption extends to tangible personal property used as material in the construction of or as a part for the repair of any exempt ship, barge, or waterborne vessel. Use must be on a river or rivers bordering Iowa, not on any river or rivers bounded on both banks by Iowa territory.

Business Transfer of Vehicles Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(10) and IAC 701-34.13

Corporate mergers often involve the transfer of title to large numbers of vehicles from a merging corporation to a surviving corporation. These transfers generally do not involve the “purchase” of these vehicles, though other transfers of vehicles between corporations may involve purchases of vehicles and thus be subject to use tax. If title to or possession of tangible personal property or ownership of services is transferred from one corporation to another pursuant to a statutory merger, the transfer is not a “sale” subject to tax if all of the following circumstances exist: (1) the merger is pursuant to statute (for example, Iowa Code section 490.1106); (2) by the terms of that statute, the title or possession of property or services transferred passes from a merging corporation to a surviving corporation and not for any consideration; (3) the merging corporation is extinguished and dissolved the moment the merger occurs and, as a result of this dissolution, cannot receive any benefit from the merger; and (4) the corporation that is either transferring the vehicle or receiving transfer of the vehicle must have been in existence no longer than 24 months. Transactions which are not of the type described above may involve taxable sales.

Lemon Law Refunds Estimate – Not Estimated

Citation: Iowa Code 2005 322G.4(2) and IAC 701-34.3

When a vehicle subject to registration is sold and later returned to the seller with the entire purchase price refunded, the purchaser is entitled to a refund of the use tax paid. To obtain a refund the purchaser must be able to show that the entire purchase price was returned and provide proof that the use tax had been paid.

Partial Exemption on Mobile Homes..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(14) and IAC 701-32.3

All taxable mobile homes or manufactured housing are subject to use tax in an amount equal to 60 percent of the mobile home's or manufactured housing's purchase price (40 percent of the home's or housing's purchase price is exempt from use tax). In arriving at the purchase price upon which the use tax is to be computed, the trade-in allowance is a reduction in the purchase price if (1) the property traded for the mobile home or manufactured housing is a type of property normally sold in the regular course of business of the retailer selling the home or housing and (2) the retailer intends ultimately to sell the traded property at retail or to use the traded property in the manufacturing of a like item.

Previously Taxed Mobile Homes..... Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(13) and IAC 701-32.3

A use tax is not imposed on any mobile home or manufactured housing if the tax has been previously imposed pursuant to Iowa Code 2001 section 423.2 and has been paid. In order for the exemption to be allowed, the purchaser of the mobile home or manufactured housing has the responsibility to provide the county treasurer with documentation verifying that the Iowa use tax was previously paid.

Property for Leased Vehicle Manufacture Estimate – Not Estimated

Citation: Iowa Code 2005 423.6(9) and IAC 701-33.7

Tangible personal property which by means of fabrication, compounding, or manufacturing becomes an integral part of vehicles commonly known as motor trucks, truck tractors, road tractors, trailers, and semi trailers is exempt from use tax if the vehicle is manufactured for lease and is actually leased to a lessee for use outside the state of Iowa and the subsequent sole use in Iowa is in interstate commerce or interstate transportation.

Appendix A

Firms are allowed to deduct the costs of doing business when determining taxable income. These business expenses often include the purchase of long-lived assets such as buildings or machinery. Because these assets have value to the firm in more than one tax period, tax law requires that the costs of these assets be deducted over the life of the asset. For certain types of assets, tax policies are often changed to speed the deduction of expenses, therefore redistributing taxes, across periods. For example, allowing certain assets to be expensed in the year of purchase creates a large deduction in the first year, but higher taxes are paid in subsequent years because no further deduction is available. Such policies theoretically do not reduce lifetime tax receipts related to the firm's purchase of an asset, rather they only reduce revenues to the State through the opportunity cost of when those tax revenues are received. These policies are not treated as tax expenditures for this study.

Examples of policies that alter the timing of when expenses are deducted from taxable income and thus move tax receipts across tax periods are:

- 50% bonus depreciation
- amortization of start-up costs
- corporate farm exceptions to accrual
- accelerated depreciation on buildings
- accelerated depreciation on machinery and equipment
- expensing of certain agricultural capital outlays
- expensing of multi-year agricultural costs
- expensing of multi-year timber costs
- expensing of small capital investments
- expensing of soil and water conservation
- increased Section 179 expensing
- rapid amortization for reforestation
- speculative shell building depreciation.

Likewise, tax policies that alter the timing of when revenues are realized as income are also not treated as tax expenditures. Examples of such policies are:

- corporate farm exceptions to accrual
- installment sales income deferral.